

**Michigan Judges' Retirement System**  
A Pension and Other Employee Benefit Trust Fund of the State of Michigan

**Comprehensive Annual Financial Report  
for the Fiscal Year Ended September 30, 2008**



**M J R S**

**Prepared by:  
Financial Services  
for  
Office of Retirement Services  
P.O. Box 30171  
Lansing, Michigan 48909-7671  
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# INTRODUCTORY SECTION

Certificate of Achievement  
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# INTRODUCTORY SECTION

## Certificate of Achievement

### Certificate of Achievement for Excellence in Financial Reporting

Presented to

### Michigan Judges' Retirement System

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

**Public Pension Standards Award**



Public Pension Coordinating Council

***Public Pension Standards Award  
For Funding and Administration  
2008***

Presented to

***Michigan Office of Retirement Services***

In recognition of meeting professional standards for  
plan funding and administration as  
set forth in the Public Pension Standards.

*Presented by the Public Pension Coordinating Council, a confederation of*

National Association of State Retirement Administrators (NASRA)  
National Conference on Public Employee Retirement Systems (NCPERS)  
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink, reading 'Alan H. Winkle'. The signature is fluid and cursive, with the first name 'Alan' being more prominent.

Alan H. Winkle  
Program Administrator

# **INTRODUCTORY SECTION**

## **Letter of Transmittal**

**Michigan Judges' Retirement System**  
P.O. Box 30171  
Lansing, Michigan 48909-7671  
Telephone 517-322-5103  
Outside Lansing 1-800-381-5111

### **STATE OF MICHIGAN**

JENNIFER M. GRANHOLM, Governor

## **DEPARTMENT OF MANAGEMENT AND BUDGET**

December 12, 2008

The Honorable Jennifer M. Granholm  
Governor, State of Michigan,

Members of the Legislature  
State of Michigan,

Retirement Board Members  
and  
Members, Retirees and Beneficiaries

Ladies and Gentlemen:

We are pleased to present the comprehensive annual financial report of the Michigan Judges' Retirement System (System) for fiscal year 2008.

### **INTRODUCTION TO REPORT**

The System was established by legislation under Public Act 234 of 1992 which consolidated the Judges' and former Probate Judges' retirement systems. The System is administered by the Office of Retirement Services (ORS). The number of active and retired members and beneficiaries of the System is presented in Note 1 of the financial statements in the Financial Section of this report. The purpose of the System is to provide benefits for all judges. The services performed by the staff provide benefits to members.

#### ***Responsibility***

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the leadership team of the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System.

#### ***Internal Control Structure***

The leadership team of the System is responsible for maintaining adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. The internal

# INTRODUCTORY SECTION

## **Letter of Transmittal (continued)**

control structure is designed to provide reasonable assurance regarding the safekeeping of assets and reliability of all financial records.

### ***Independent Auditors***

Andrews Hooper & Pavlik P.L.C., independent auditors, conducted an annual audit of the System. The independent auditor's report on the System's financial statements is included in the Financial Section of this report.

Statute requires that an annual actuarial valuation be conducted. The purpose of the valuation is to evaluate the mortality, service, compensation and other financial experience of the System and to recommend employer-funding rates for the subsequent year. The annual actuarial valuation was completed by Gabriel Roeder Smith & Company for the fiscal year ended September 30, 2008. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

### ***Management's Discussion and Analysis (MD&A)***

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

## **PROFILE OF THE GOVERNMENT**

Public Act 234 of 1992 authorized the merger of the Probate Judges' Retirement Fund into the Judges' Retirement Fund by requiring the consolidation of all assets, rights, and obligations under the former Judges' and Probate Judges' Retirement Funds. The Judges' Retirement Board, with the director of the Office of Retirement Services as the Executive Secretary, administers the consolidated fund. Financing comes from member contributions, court filing fees as provided under law, investment earnings, and legislative appropriations.

Public Act 523 of 1996, effective March 31, 1997, closed the plan to new entrants. Judges or state officials newly appointed or elected on or after March 31, 1997, become members of the State's defined contribution plan.

## **ECONOMIC CONDITIONS AND OUTLOOK**

Despite challenging economic times, the System continues to show steady performance over the long term.

### ***Investments***

The State Treasurer is the investment fiduciary and custodian of all investments of the System pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment return rate. The investment activity for the year produced a total rate of return on the portfolio of (11.7)%. For the last five years, the System has experienced an annualized rate of return of 7.8%. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

### ***Accounting System***

Transactions of the System are reported on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred. Participants' benefits are recorded when payable by law. We believe the accounting and administrative internal controls established by the System provide reasonable assurance the System is carrying out its responsibilities in safeguarding its assets, in maintaining the reliability of the financial records for preparing financial statements, and in maintaining accountability for its assets.

# INTRODUCTORY SECTION

## **Letter of Transmittal (continued)**

### ***Funding***

Funds are derived from the excess of additions to plan net assets over deductions from plan net assets. Funds are accumulated by the System in order to meet future benefit obligations to retirees and beneficiaries. The percentage computed by dividing the actuarial value of assets by the actuarial accrued liability is referred to as the “funded ratio.” This ratio provides an indication of the funding status of the System and generally, the greater this percentage, the stronger the System. As of September 30, 2008, the actuarial value of the assets and actuarial accrued liability of the System were \$303.7 million and \$247.0 million, respectively, resulting in a funded ratio of 123.0%. As of September 30, 2007, the amounts were \$301.0 million and \$247.1 million, respectively. An historical perspective of funding levels for the System is presented on the Schedule of Funding Progress in the Required Supplementary Information in the Financial Section of this report.

### ***Postemployment Benefits***

In fiscal year 2007 the System implemented Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. A GASB 43 compliant actuarial valuation is completed annually to determine the actuarial accrued liability if the postemployment benefits were to be pre-funded. If these benefits were pre-funded, the actuarial accrued liability as of September 30, 2008, would be \$6.7 million. Although Statement No. 43 does not require retroactive application of the reporting changes, therefore, only three valuation years are presented and included in the required supplementary information of this report.

In fiscal year 2008 the State of Michigan adopted Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Because GASB Statement No. 45 requires the exclusion of all postemployment benefits, all assets accumulated as a result of retiree contributions collected in excess of retiree healthcare benefits, along with all current year activity, have been accounted for within the Reserve for OPEB Related Benefits in fiscal year 2008. Statement No. 45 does not require retroactive application of the reporting changes, therefore fiscal year 2007 information has not been restated.

## **MAJOR GOALS ACCOMPLISHED**

The Michigan Department of Management and Budget, Office of Retirement Services (ORS) is an innovative retirement organization driven to empower our customers for a successful today and a secure tomorrow. During fiscal year 2008, we concluded our Vision ORS technology project by integrating additional tools to further streamline our processes and conduct our business more efficiently. One of the enhancements most visible to the public is miAccount, a web-based, self-service interactive system that allows active and retired members to safely access their personal retirement information, review and update personal information, and be more actively involved in their retirement planning. Additional accomplishments are highlighted below.

### ***Focus on Our Customer***

Streamlined operations helped reduce expenses - As fiscal year 2007-08 unfolded with state government facing a serious financial deficit, ORS worked diligently to improve customer services while reducing expenses. On the processing side of our operations, we've placed greater emphasis on retirees enrolling in electronic funds transfer (EFT, or direct deposit) which provides the pension recipient with a more secure way to receive pension payments, and saves us processing costs. We've also enhanced our EFT options, allowing them to split their payment between two accounts, either at the same financial institution or at different institutions.

We implemented new group counseling sessions to better serve our customer base. These sessions help customers understand their pension estimate and the application process while providing face-to-face reassurance that they're not missing anything before submitting their retirement application. Besides reaching multiple customers at once with fewer resources, the group sessions reduce walk-in traffic and reduce the number of incomplete applications that need to be returned.



# INTRODUCTORY SECTION

## **Letter of Transmittal (continued)**

Active judges receive customized retirement information - ORS prepared an information packet with a personalized pension estimate and updated plan summary for every active defined benefit plan member, providing the facts and figures required to make informed decisions about their future.

Customer contact options expanded - Through our websites, seminars, and publications, ORS continues to offer customers easily accessible sources of clear, concise information about their retirement plan. As more of our customers use these tools, they become more knowledgeable about their plan and have less need to contact us with basic retirement plan questions, freeing staff to respond to more complicated inquiries.

During fiscal year 2008 our Customer Service staff answered 215,949 customer telephone calls, assisted 6,952 customers face-to-face, and responded to 14,072 emails. We also introduced a new secure online message board as part of miAccount where customers receive a response to their questions within 12 business hours.

### ***Continuously Improve Processes***

Member ID replaces social security number references - Safeguarding our members' identity and financial information has always been a high priority for ORS. This year we initiated a process to use a unique Member ID number as our account reference number, rather than the customer's social security number (SSN). Members use their Member ID to set up and access account data through miAccount, which offers a secure environment for all online transactions. Member IDs also appear on EFT statements, personalized forms and letters sent from ORS, annual member statements, and other correspondence.

Staff trained on security awareness and identity theft protection - All ORS staff participated in mandatory security awareness and identity theft protection training, in response to the June 2007 amendment to the Identity Theft Protection Act (2004 PA 454). Everyone learned to identify a security risk versus a security breach, how to prevent security breaches, and what procedures to follow if one occurs. This training was incorporated into our new hire orientation as well, so it will remain a significant part of our culture.

### ***Promote a Positive Work Environment***

Staff engaged in strategic planning - Last year, staff from throughout ORS helped craft strategic goals that would direct ORS for the next three years. This endeavor allows the people who serve our customers to guide the organization's future direction, and to have a sense of ownership for these goals. The objectives are being included in our business plans over the next three years.

Cross-training enhances business operations and staff flexibility - Over the past several years, as we implemented new technology and automated many of our processes, day-to-day tasks have changed dramatically. With the elimination of many tedious manual operations, we've seen our business needs shift. We now have more staff resources dedicated to interacting directly with customers. We've also realized gains in our operations by cross-training staff so they are ready and able to assist wherever the workloads are the heaviest.

Celebrations, open forums, and recognition events help improve morale - This year ORS had much to celebrate. We implemented the last stages of Vision ORS, a tremendous endeavor that has totally revamped our retirement processing system from how we collect employee wage and contribution data to how we process pensions. In spite of tough economic times, we found ways to offer many thanks for jobs well done, completion of special projects, and innovative solutions. The Department of Management and Budget honored ORS employees with two of its five prestigious Employee Excellence Awards.

Semiannual ORS all-staff meetings provided opportunities for sharing business updates, responding to questions, and welcoming new staff. Two all-staff planning committees, comprised of staff volunteers from throughout ORS, determined each agenda and coordinated the meetings.

# INTRODUCTORY SECTION

## Letter of Transmittal (continued)

### *Optimize Technology*

Forms, Letters, Barcode project reduces processing time - This year ORS implemented an integrated forms, letters, and barcoding solution that creates individually customized letters and forms, and print-on-demand information sheets. These documents are automatically imaged to the appropriate member's file then transmitted daily to the state's central facility for printing and mailing. The document images are immediately viewable by staff, allowing them to focus on serving the customer rather than processing mail.

Incoming forms carry barcodes identifying the document type, member account, and the workflow to be initiated. By automating the incoming scanning and indexing process, there will be less human intervention and shorter waits before processing can begin.

miAccount offers secure, online access to personal account information - The new online account access tool, miAccount, generated considerable excitement this year and received accolades from customers and various outside organizations. Introduced to retirees in February and to active members in August, by the end of September, 23,580 registered miAccount users had completed 82,416 transactions or page views, a number that is steadily increasing. miAccount can be used to add or change a beneficiary, modify direct deposit accounts, change federal tax withholding, view past pension payments, check wage and service credit history, track contribution totals, create and save pension estimates, apply for retirement, or use a secure message board to correspond with staff about personal account information. The tool lets users conduct retirement-related business when it's convenient for them rather than being confined to traditional business hours.

Ever-changing technology requires updating - As more and more demands were placed on our equipment and technology, we needed to upgrade our hardware and software. This improved both online and batch processing time, and created system environment consistency for better disaster recovery and testing.

### **AWARDS AND ACKNOWLEDGEMENTS**

ORS received the following recognitions:

- Certificate of Achievement for Excellence in Financial Reporting for our fiscal year 2007 *Comprehensive Annual Financial Report*. Awarded by the Government Finance Officers Association of the United States and Canada, 2007 marks the 17<sup>th</sup> consecutive year to receive this prestigious award.
- Public Pension Standards For Funding and Administration 2008 Award for meeting standards for public retirement system management and administration. Awarded by the Public Pension Coordinating Council.
- The Midwest Technology Leaders Council honored miAccount with the 2008 Midwest Collaboration Award (MCA08), for a Michigan-based partnership that achieves a specific technology goal.
- *Government Technology* magazine recognized miAccount as the best new application to directly deliver services more efficiently and effectively to the public.
- 2007 Council of State Government Innovations Award Program. Placed in the finals for the Medicare Advantage program which streamlines plan administration and provides greater access to health care providers, cost sharing, and savings.

# INTRODUCTORY SECTION


## Letter of Transmittal (continued)

### *Acknowledgments*


The preparation of this report was accomplished with the dedication and cooperation of many people. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship of the funds of the System.

We would, therefore, like to express our appreciation for the assistance given by staff, advisors, and the many people who contributed to its preparation. We believe their combined efforts have produced a report that will enable employers and plan members to better evaluate and understand the Michigan Judges' Retirement System. Their cooperation contributes significantly to the success of the System.

Sincerely,



Lisa Webb Sharpe, Director  
Department of Management and Budget



Phillip J. Stoddard, Director  
Office of Retirement Services

# INTRODUCTORY SECTION

## Administrative Organization

### **Retirement Board Members \***

Francis Spaniola  
Trustee (General Public)  
Term Expires March 31, 2011

George M. Elworth  
Representing Attorney General  
Statutory Member

Vernon Johnson  
Representing State Treasurer  
Statutory Member

Judge Alton Davis  
Representing Active Judges  
Term Expires March 31, 2009

Chris J. Swope  
Trustee (General Public)  
Term Expires March 31, 2011

\*Statute provides that board members may continue to serve after their term expires until they are either replaced or reappointed.

### **Administrative Organization**

**Department of Management and Budget  
Office of Retirement Services  
P.O. Box 30171  
Lansing, Michigan 48909-7671  
517-322-5103  
1-800-381-5111**

### **Advisors and Consultants**

**Actuary**  
Gabriel Roeder Smith & Co.  
Alan Sonnanstine  
Southfield, Michigan

**Auditors**  
Thomas H. McTavish, C.P.A.  
Auditor General  
State of Michigan

**Investment Manager and Custodian**  
Robert J. Kleine  
State Treasurer  
State of Michigan

Andrews Hooper & Pavlik P.L.C.  
Jeffrey J. Fineis, C.P.A.  
Okemos, Michigan

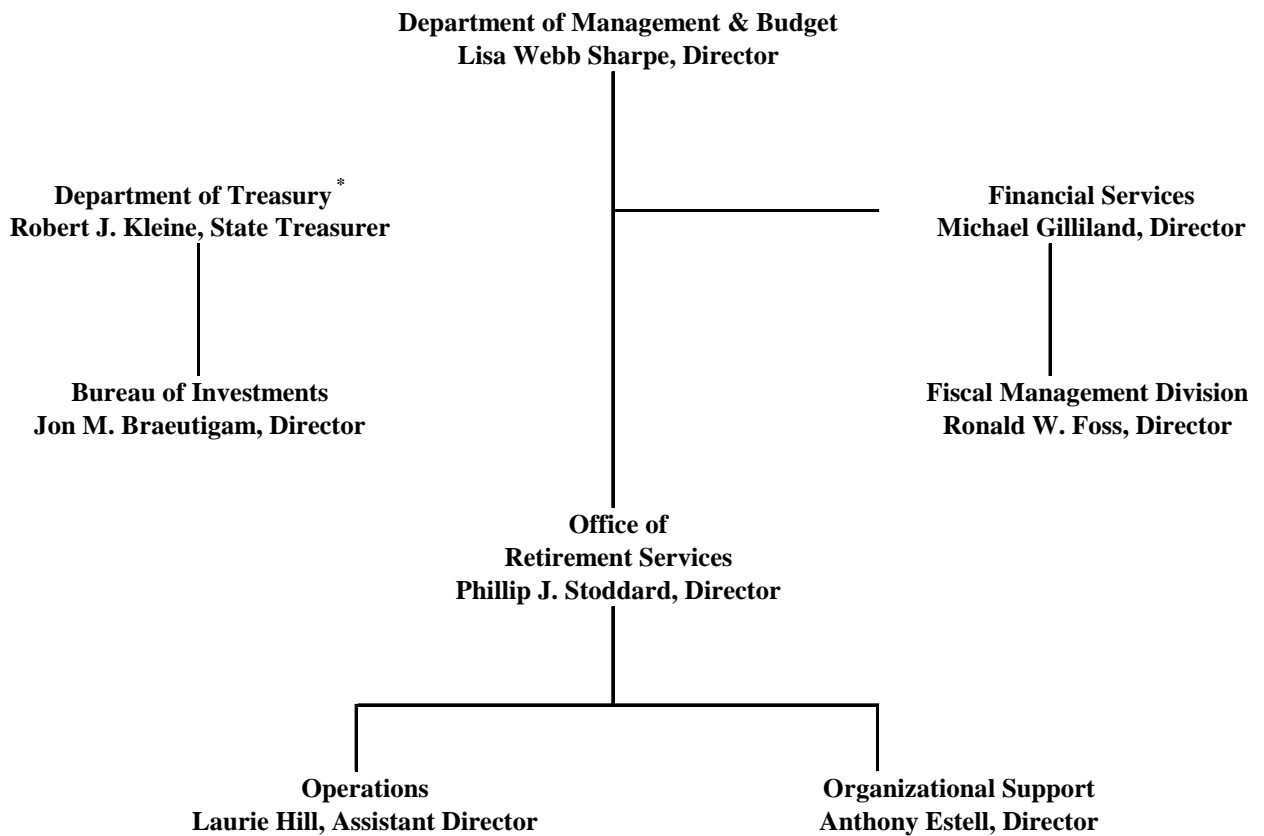
**Legal Advisor**  
Mike Cox  
Attorney General  
State of Michigan

**Investment Performance  
Measurement**  
State Street Corporation  
State Street Investment Analytics  
Boston, MA

# INTRODUCTORY SECTION

## Administrative Organization (continued)

### Organization Chart



\* The investments of the System are managed by the Michigan Department of Treasury. Information on the investments and the fiduciary, Michigan Department of Treasury, can be found in the Investment Section, Introduction. In addition, see the Investment Section, Schedule of Investment Fees and Schedule of Investment Commissions, for information regarding the investment fees and commissions paid as well as investment professionals utilized by the System.

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# FINANCIAL SECTION

Independent Auditor's Report  
Management's Discussion and Analysis  
Basic Financial Statements  
Notes to Basic Financial Statements  
Required Supplementary Information  
Notes to Required Supplementary Information  
Supporting Schedules

# FINANCIAL SECTION

## Independent Auditor's Report



**ANDREWS HOOPER & PAVLIK P.L.C.**  
Certified Public Accountants

Ms. Lisa Webb Sharpe, Director, Department of Management and Budget  
Mr. Phillip Stoddard, Director, Office of Retirement Services  
Mr. Thomas H. McTavish, CPA, Auditor General, Office of the Auditor General  
Michigan Judges' Retirement System Board

We have audited the accompanying statements of pension plan and other postemployment benefit plan net assets of the Michigan Judges' Retirement System, as of September 30, 2008 and 2007, and the related statements of changes in pension plan and other postemployment benefit plan net assets for the years then ended. These financial statements are the responsibility of the Management of the Michigan Judges' Retirement System. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Michigan Judges' Retirement System, as of September 30, 2008 and 2007, and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2008 on our consideration of the Michigan Judges' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.



## Independent Auditor's Report (continued)

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of Management regarding the methods of measurement and presentation of this required supplemental information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Introductory, Investment, Actuarial, and Statistical Sections and the required supplementary information and supporting schedules listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The Introductory, Investment, Actuarial, and Statistical Sections and the required supplementary information and supporting schedules are the responsibility of the Michigan Judges' Retirement System's Management. The Schedules of Funding Progress and Employer Contributions and related notes and the supporting schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements, and in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The Introductory, Investment, Actuarial, and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Andrews Hooper & Pavlik P.L.C.*

Okemos, Michigan  
December 12, 2008

# FINANCIAL SECTION

## Management's Discussion and Analysis

Our discussion and analysis of the Michigan Judges' Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended September 30, 2008. Please read it in conjunction with the transmittal letter in the Introductory Section on page 6 and the basic financial statements, which follow this discussion.

### FINANCIAL HIGHLIGHTS

- System assets exceeded liabilities at the close of fiscal year 2008 by \$269.6 million (reported as *net assets*). Net assets are held in trust to meet future benefit payments.
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of September 30, 2008, the funded ratio was approximately 123.0% for pension benefits and the funded ratio for other postemployment benefits was 0.0%.
- Revenues for the year were (\$46.0) million, which is comprised primarily of member contributions of \$2.3 million and investment losses of (\$48.5) million.
- Expenses increased over the prior year from \$20.0 million to \$20.1 million or 1.0%. Most of this increase represented increased retirement benefits paid.

### THE STATEMENT OF PLAN NET ASSETS AND THE STATEMENT OF CHANGES IN PLAN NET ASSETS

This Comprehensive Annual Financial Report (CAFR) consists of two financial statements; *The Statements of Pension Plan and Other Postemployment Benefit Plan Net Assets* (page 22) and *The Statements of Changes in Pension Plan and Other Postemployment Benefit Plan Net Assets* (page 23). These financial statements report information about the System, as a whole, and about its financial condition that should help answer the question: Is the System, as a whole, better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

*The Statement of Pension Plan and Other Postemployment Benefit Plan Net Assets* presents all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the System's financial position is improving or deteriorating. *The Statement of Changes in Pension Plan and Other Postemployment Benefit Plan Net Assets* presents how the System's net assets changed during the most recent fiscal year. These two financial statements should be reviewed along with the Schedules of Funding Progress (page 41) and Schedules of Employer Contributions (page 42) to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

# FINANCIAL SECTION

## Management's Discussion and Analysis (continued)

### FINANCIAL ANALYSIS

System total assets as of September 30, 2008, were \$317.3 million and were mostly comprised of cash, investments, and contributions due from employers. Total assets decreased \$95.1 million or (23.1)% between fiscal years 2007 and 2008 due primarily to net investment losses. Total assets increased \$60.6 million or 17.2% between fiscal years 2006 and 2007 due primarily to favorable operating results and increases to invested assets (primarily collateral on loaned securities).

Total liabilities as of September 30, 2008, were \$47.7 million and were comprised of warrants outstanding, accounts payable, and obligations under securities lending. Total liabilities decreased \$29.0 million or (37.8)% between fiscal years 2007 and 2008 due primarily to decreased obligations under securities lending. Total liabilities increased \$28.0 million or 57.5% between fiscal years 2006 and 2007 due primarily to increases in obligations under securities lending.

System assets exceeded its liabilities at the close of fiscal year 2008 by \$269.6 million. Total net assets held in trust for pension and OPEB benefits decreased \$66.2 million or (19.7)% between fiscal years 2007 and 2008 due primarily to net investment losses. Total net assets increased \$32.5 million or 10.7% between fiscal years 2006 and 2007 due primarily to increased investment earnings.

#### Net Assets (in thousands)

	<u>2008</u>	<u>Increase (Decrease)</u>		<u>2007</u>	<u>Increase (Decrease)</u>		<u>2006</u>
<b>Assets</b>							
Cash	\$ 6,176	422.9 %	\$	1,181	7.0 %	\$	1,104
Receivables	93	6.9		87	(53.2)		186
Investments	311,076	(24.4)		411,221	17.3		350,659
<b>Total Assets</b>	<u>317,345</u>	<u>(23.1)</u>		<u>412,489</u>	<u>17.2</u>		<u>351,949</u>
<b>Liabilities</b>							
Warrants outstanding	39	(25.0)		52	8.3		48
Accounts payable and other accrued liabilities	166	1,176.9		13	-		-
Obligations under securities lending	47,518	(38.1)		76,705	57.5		48,687
<b>Total Liabilities</b>	<u>47,723</u>	<u>(37.8)</u>		<u>76,770</u>	<u>57.5</u>		<u>48,735</u>
<b>Total Net Assets</b>	<u>\$ 269,622</u>	<u>(19.7) %</u>	<u>\$</u>	<u>335,719</u>	<u>10.7 %</u>	<u>\$</u>	<u>303,214</u>

# FINANCIAL SECTION

## **Management's Discussion and Analysis (continued)**

### **REVENUES - ADDITIONS TO PLAN NET ASSETS**

The reserves needed to finance retirement and other postemployment benefits are accumulated through the collection of member contributions, earnings on investments, and court fees. Contributions, net investment income/(losses) and court fees for fiscal year 2008 totaled (\$46.0) million.

Total additions for fiscal year 2008 decreased approximately \$98.5 million or (187.8)% from those of fiscal year 2007 due primarily to net investment losses. Total additions increased \$14.6 million or 38.6% from fiscal year 2006 to fiscal year 2007 due primarily to increased investment earnings. Total contributions decreased between fiscal years 2007 and 2008 by \$98.0 thousand or (4.1)%, and investment income decreased \$98.2 million or (197.6)%. Total contributions decreased from fiscal year 2006 to fiscal year 2007 by \$160.0 thousand or (6.3)%, while investment income increased \$15.3 million or 44.3%. Court fees totaled \$159.4 thousand in fiscal year 2008 as compared to \$346.2 thousand in fiscal year 2007. The decrease in court fees is based on the results of the actuarial valuation which did not require a contribution for the pension plan for fiscal year 2008 while allowing the System to remain actuarially fully funded. The Investment Section of this report reviews the results of investment activity for 2008.

### **EXPENSES - DEDUCTIONS FROM PLAN NET ASSETS**

The primary expenses of the System include the payment of pension benefits to members and beneficiaries, payment for health, dental and vision benefits, and the cost of administering the System. Total deductions for fiscal year 2008 were \$20.1 million, an increase of 1.0% from fiscal year 2007 expenses. Total deductions for fiscal year 2007 were \$20.0 million, an increase of 6.6% over fiscal year 2006 expenses.

The health, dental and vision care expenses increased during the year by \$178.8 thousand or 29.3% from \$611.2 thousand to \$790.0 thousand. This compares to an increase of \$14.4 thousand or 2.3% from \$596.8 thousand to \$611.2 thousand between fiscal years 2006 and 2007. Both comparative years increases were due primarily to increases in retiree health rates. The payment of pension benefits increased by \$260.9 thousand or 1.4% between fiscal years 2007 and 2008, and by \$966.7 thousand or 5.4% from fiscal year 2006 to 2007. In fiscal year 2008, the increase in pension benefit expense resulted from new retirees earning higher pension payments, while the number of retirees decreased from 542 in 2007 to 540 in 2008. In fiscal year 2007, the increase in pension benefit expense resulted primarily from an increase in retirees (from 533 in 2006 to 542 in 2007). There were no contribution refunds during fiscal year 2008. The refunds listed in fiscal year 2007 were to three members. Administrative expenses increased by \$4.3 thousand from \$181.8 thousand in fiscal year 2007 to \$186.1 thousand in fiscal year 2008. Therefore, the increase in administrative expenses is due primarily to the transfer of all retiree health related activity, including administrative fees paid to insurance carriers, from the State Sponsored Group Insurance Fund (SSGIF) to the OPEB plan in accordance with GASB Statement No. 45. Note 5 to the basic financial statements describes the accounting change required by Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Administrative expenses increased by \$11.8 thousand or 7.1% between fiscal years 2006 and 2007. This increase was due primarily to an increase in professional services expenses.

# FINANCIAL SECTION

## Management's Discussion and Analysis (continued)

(in thousands)

	<u>2008</u>	<u>Increase (Decrease)</u>		<u>2007</u>	<u>Increase (Decrease)</u>		<u>2006</u>
<b>Additions</b>							
Member contributions	\$ 2,278	(4.1) %	\$	2,376	(6.3) %	\$	2,536
Net investment income (loss)	(48,516)	(197.6)		49,716	44.3		34,453
Court fees and miscellaneous income	188	(49.7)		374	(57.0)		869
<b>Total Additions</b>	<u>(46,050)</u>	<u>(187.8)</u>		<u>52,466</u>	<u>38.6</u>		<u>37,858</u>
<b>Deductions</b>							
Pension benefits	19,180	1.4		18,920	5.4		17,953
Health care benefits	790	29.3		611	2.3		597
Refunds of member contributions	-	(100.0)		248	-		-
Administrative expenses	186	2.2		182	7.1		170
<b>Total Deductions</b>	<u>20,156</u>	<u>1.0</u>		<u>19,961</u>	<u>6.6</u>		<u>18,720</u>
<b>Net Increase (decrease)</b>	(66,206)	(303.7)		32,505	69.8		19,138
<b>Net Assets - Beginning of Year</b>	<u>335,828</u>	* 10.8		<u>303,214</u>	6.7		<u>284,076</u>
<b>Net Assets - End of Year</b>	<u>\$ 269,622</u>	<u>(19.7) %</u>	<u>\$</u>	<u>335,719</u>	<u>10.7 %</u>	<u>\$</u>	<u>303,214</u>

\*The October 1, 2007 net assets have been restated by \$108,745 due to the implementation of GASB Statement No. 45 as described in Note 5 to the basic financial statements.

### RETIREMENT SYSTEM AS A WHOLE

The System's combined net assets experienced a decrease in 2008 after increases for both 2007 and 2006. This decrease is a result of a struggling national economy that resulted in net investment losses for fiscal year ended September 30, 2008. Management believes, and actuarial studies concur, that the System is in a financial position to meet its current obligations due, in part, to a prudent investment program, cost controls, and strategic planning.

### CONTACTING SYSTEM FINANCIAL MANAGEMENT

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investors, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Office of Retirement Services, P.O. Box 30171, Lansing, MI 48909-7671.

# FINANCIAL SECTION

## Statements of Pension Plan and Other Postemployment Benefit Plan Net Assets

As of September 30, 2008 and 2007

	September 30, 2008			September 30, 2007		
	Pension Plan	OPEB Plan	Total	Pension Plan	OPEB Plan	Total
<b>Assets:</b>						
Equity in common cash	\$ 6,038,814	\$ 137,155	\$ 6,175,969	\$ 1,180,416	\$ 145	\$ 1,180,561
Receivables:						
Amounts due						
from employer	65,672	20,602	86,274	63,474	8	63,482
Interest and dividends	7,320		7,320	23,618	3	23,621
Total receivables	72,992	20,602	93,594	87,092	11	87,103
Investments:						
Short term investment pools	3,682,684	93	3,682,777	5,548,975	683	5,549,658
Fixed income pools	45,774,288	1,151	45,775,439	58,771,085	7,232	58,778,317
Domestic equity pools	115,955,973	2,916	115,958,889	154,895,097	19,061	154,914,158
Real estate pool	44,650,307	1,123	44,651,430	43,337,346	5,333	43,342,679
Alternative investment pools	40,106,294	1,009	40,107,303	35,011,068	4,308	35,015,376
International equities pools	24,483,854	616	24,484,470	36,912,657	4,542	36,917,199
Securities lending collateral	36,414,754	1,124	36,415,878	76,694,958	9,438	76,704,396
Total investments	311,068,154	8,032	311,076,186	411,171,186	50,597	411,221,783
<b>Total assets</b>	<b>317,179,960</b>	<b>165,789</b>	<b>317,345,749</b>	<b>412,438,694</b>	<b>50,753</b>	<b>412,489,447</b>
<b>Liabilities:</b>						
Warrants outstanding	39,101	1	39,102	51,785	6	51,791
Accounts payable and other accrued liabilities	2,710	162,867	165,577	13,353	2	13,355
Obligations under securities lending	47,517,627	1,124	47,518,751	76,694,958	9,438	76,704,396
<b>Total liabilities</b>	<b>47,559,438</b>	<b>163,992</b>	<b>47,723,430</b>	<b>76,760,096</b>	<b>9,446</b>	<b>76,769,542</b>
<b>Net Assets Held in Trust for</b>						
<b>Pension and OPEB Benefits*</b>	<u>\$ 269,620,522</u>	<u>\$ 1,797</u>	<u>\$ 269,622,319</u>	<u>\$ 335,678,598</u>	<u>\$ 41,307</u>	<u>\$ 335,719,905</u>

\*A schedule of funding progress is presented in the Required Supplementary Information of the Financial Section.

The accompanying notes are an integral part of these financial statements.

# FINANCIAL SECTION

## Statements of Changes in Pension Plan and Other Postemployment Benefit Plan Net Assets

For Fiscal Years Ended September 30, 2008 and 2007

	September 30, 2008			September 30, 2007		
	Pension Plan	OPEB Plan	Total	Pension Plan	OPEB Plan	Total
<b>Additions:</b>						
Contributions:						
Member contributions	\$ 1,738,459	\$ 539,440	\$ 2,277,899	\$ 1,845,878	\$ 530,336	\$ 2,376,214
Investment income (loss):						
Net appreciation (depreciation) in						
fair value of investments	(54,854,136)		(54,854,136)	43,142,762		43,142,762
Interest, dividends, and other	6,560,995	7,510	6,568,505	6,841,622		6,841,622
Investment expenses:						
Real estate operating expenses	(1,654)		(1,654)	(10,422)		(10,422)
Other investment expenses	(574,757)		(574,757)	(395,516)		(395,516)
Securities lending activities:						
Securities lending income	2,311,871		2,311,871	3,361,439		3,361,439
Securities lending expenses	(1,966,393)		(1,966,393)	(3,224,022)		(3,224,022)
Net investment income (loss)	(48,524,074)	7,510	(48,516,564)	49,715,863	-	49,715,863
Court Fees	44,406	115,000	159,406	231,235	115,000	346,235
Transfers from other systems/funds		14,900	14,900			
Miscellaneous income	7,702	6,848	14,550	27,298	535	27,833
<b>Total additions</b>	<b>(46,733,507)</b>	<b>683,698</b>	<b>(46,049,809)</b>	<b>51,820,274</b>	<b>645,871</b>	<b>52,466,145</b>
<b>Deductions:</b>						
Benefits paid to plan members						
and beneficiaries:						
Retirement benefits	19,180,381		19,180,381	18,919,433		18,919,433
Health benefits		720,335	720,335		500,954	500,954
Dental/vision benefits		69,640	69,640		110,292	110,292
Refunds of member contributions				247,941		247,941
Administrative expenses	144,188	41,978	186,166	181,848		181,848
<b>Total deductions</b>	<b>19,324,569</b>	<b>831,953</b>	<b>20,156,522</b>	<b>19,349,222</b>	<b>611,246</b>	<b>19,960,468</b>
<b>Net Increase (decrease)</b>	<b>(66,058,076)</b>	<b>(148,255)</b>	<b>(66,206,331)</b>	<b>32,471,052</b>	<b>34,625</b>	<b>32,505,677</b>
<b>Net Assets Held in</b>						
<b>Trust for Pension</b>						
<b>and OPEB Benefits:</b>						
<b>Beginning of Year</b>	<b>335,678,598</b>	<b>150,052<sup>1</sup></b>	<b>335,828,650</b>	<b>303,207,546</b>	<b>6,682</b>	<b>303,214,228</b>
<b>End of Year<sup>2</sup></b>	<b>\$ 269,620,522</b>	<b>\$ 1,797</b>	<b>\$ 269,622,319</b>	<b>\$ 335,678,598</b>	<b>\$ 41,307</b>	<b>\$ 335,719,905</b>

<sup>1</sup> Restated

<sup>2</sup> A schedule of funding progress is presented in the Required Supplementary Information in the Financial Section.

The accompanying notes are an integral part of these financial statements.

# FINANCIAL SECTION

## Notes to Basic Financial Statements September 30, 2008 and 2007

### NOTE 1 - PLAN DESCRIPTION

#### ORGANIZATION

The Michigan Judges' Retirement System (System) is a cost sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State), created under Public Act 234 of 1992, consolidated the former Judges' and Probate Judges' Retirement Systems into one retirement system. Section 204 of this Act establishes the board's authority to promulgate or amend the provisions of the System. The System's pension plan was established to provide retirement, survivor and disability benefits to judges in the judicial branch of state government. In addition, the System's OPEB plan provides all retirees with the option of receiving health, dental, and vision coverage under the Michigan Judges' Retirement Act. There are 141 participating employers. The System also includes the Governor of the State of Michigan, Lieutenant Governor, Secretary of State, Attorney General, Legislative Auditor General, and the Constitutional Court Administrator. The System is a qualified pension trust fund under section 401(a) of the Internal Revenue Code.

The System's financial statements are included as a pension and other employee benefit trust fund in the combined financial statements of the State.

The System is administered by the Office of Retirement Services within the Michigan Department of Management and Budget. The Department Director appoints the Office Director who serves as Executive Secretary to the System's Board, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

#### MEMBERSHIP

At September 30, 2008, and 2007, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	<b>2008</b>	<b>2007</b>
Regular benefits	360	368
Survivor benefits	174	167
Disability benefits	6	7
<b>Total</b>	<b>540</b>	<b>542</b>
 Current employees:		
Vested	256	259
Non-vested	1	1
<b>Total</b>	<b>257</b>	<b>260</b>
 Inactive employees entitled to benefits and not yet receiving them	13	16
<b>Total all members</b>	<b>810</b>	<b>818</b>



# FINANCIAL SECTION

## Notes to Basic Financial Statements (continued)

Plan 1 or 2 members (Supreme Court Justice, Court of Appeals, or elected officials) may enroll in the State Health Plan when they retire and their premium rate is subsidized. All other judges may enroll in the State Health Plan if they wish to, but they must pay the entire premium cost. At September 30, 2008, and 2007, there were a total of 540 and 542 retirees, respectively, who are eligible to participate in the health/dental/vision plans. The number of participants is as follows:

<b>Health, Dental, and Vision Plan</b>	<b>2008</b>	<b>2007</b>
Eligible participants	540	542
Participants receiving benefits:		
Health	83	87
Dental	146	150
Vision	116	120

## BENEFIT PROVISIONS – PENSION

### *Introduction*

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 234 of 1992, Michigan Judges' Retirement Act, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits are determined by final compensation and years of service. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits.

A member who leaves judicial service may request a refund of his or her member contribution account. A refund cancels a former member's rights to future benefits. Returning members who previously received a refund of their contributions may reinstate their service credit through repayment of the refund upon satisfaction of certain requirements. For salary, contribution and calculation of retirement benefit, the membership of the System is categorized into seven plans. The categories are based on the position to which the member was elected or appointed.

Public Act 523 of 1996, which was effective March 31, 1997, closed the plan to new entrants. Judges or State officials newly appointed or elected on or after March 31, 1997, become members of the defined contribution plan.

### *Regular Retirement*

The retirement benefit or allowance is calculated in accordance with the formula of the plan, which applies to the member. The formula is based on a member's years of credited service (employment) and final compensation. The normal retirement benefit is payable monthly over the lifetime of a member.

A member may retire and receive a monthly benefit after attaining:

1. age 60 with 8 or more years of credited service; or
2. age 55 with 18 or more years of credited service (the last 6 years continuous); or
3. 25 or more years of service, the last 6 years continuous; no age requirement; or
4. age 60 with service of two full terms in the office of Governor, Lieutenant Governor, Secretary of State, or Attorney General, or one full term in the office of Legislative Auditor General.

### *Early Retirement*

A member may retire with an early permanently reduced pension:

1. after completing at least 12 but less than 18 years of service, of which the last 6 years are continuous; and
2. after attaining age 55.

# FINANCIAL SECTION

## Notes to Basic Financial Statements (continued)

The early pension is computed in the same manner as a regular pension but is permanently reduced 0.5% for each full and partial month between the pension effective date and the date the member will attain age 60.

### *Deferred Retirement*

A member with 8 or more years of credited service who terminates judicial service before meeting the age requirements to receive a retirement allowance and who does not withdraw his or her contributions, is entitled to receive a monthly allowance upon reaching age 60 or age 55 with 18 years of service, the last 6 of which were continuous.

### *Disability Benefit*

A member with 8 or more years of credited service, who is totally disabled from physically or mentally performing his or her duties, is eligible for a disability pension. The disability benefit is computed in the same manner as an age and service allowance based upon service and final salary at the time of disability.

### *Pension Payment Options*

A pension is payable monthly for the lifetime of a System retiree and equals 3% of final salary times years of service for up to 12 years of service; or 50% of salary with 12 years, increased 2.5% for each additional year up to a maximum of 60% of salary. A former retiree of the Probate Judges' Retirement System receives 3% of salary times years of service, to a maximum of the greater of 40% of salary or \$15,000 but not to exceed 66 2/3% of final salary when added to a county pension; or 3.5% of salary times years of service with a maximum of two thirds of final salary, if elected.

**Straight Life** - This option provides the highest monthly retirement allowance. Surviving spouse receives a 50% survivor's benefit.

**Option A** - Under this option, after the retiree's death, the beneficiary will receive 100% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary.

**Option B** - Under this option, after the retiree's death, the beneficiary will receive 50% of the pension for the remainder of the beneficiary's lifetime. If this option is elected, the normal retirement benefit is reduced by a factor based upon the ages of the retiree and of the beneficiary. The reduction factor is smaller than the factor used in Option A above.

### *Survivor Benefit*

A survivor benefit may be paid if 1) a member who has 8 or more years of credited service dies while in office, 2) a vested former member dies before retirement, or 3) a retiree dies following retirement.

### *Contributions*

Member Contributions - Members currently participate on a contributory basis. For contribution purposes, the membership of the System is categorized in seven plans, which are based on the position to which the member was elected or appointed. Under certain circumstances, members may contribute to the System for the purchase of creditable service, such as military service or other public service. If a member terminates covered employment before a retirement benefit is payable, the member's contribution and interest on deposit may be refunded. If the member dies before being vested, the member's contribution and interest are refunded to the designated beneficiaries.

Publicly Financed Contributions - There are two public sources which fund retirement benefits: Court fees and State appropriations. The State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded accrued liabilities minus the revenues from court filing fees and member contributions. If the court fees deposited in the reserve for employer contributions equal the amount needed in addition to other publicly financed contributions to sustain the required level of publicly financed contributions, Section 304(4) of Judges' Retirement Act requires court fees be deposited in the court fee fund. A chart showing the publicly financed contribution rates is included in the Schedules of Revenue by Source in the Statistical Section.

# FINANCIAL SECTION

## Notes to Basic Financial Statements (continued)

Public Act 95 of 2002 authorizes the State Treasurer, if funds remain in the court fee fund after transfers, to transmit a portion of the money in the court fee fund and any earnings on those amounts to the reserve for health benefits. The purpose of this transfer is to pay expected health care costs for the subsequent fiscal year that are not covered as a result of employee contributions. For fiscal years 2008 and 2007, this amount was \$115,000.

### BENEFIT PROVISIONS – OTHER POSTEMPLOYMENT

#### *Introduction*

Benefit provisions of the postemployment benefit plan are established by State statute, which may be amended. Public Act 234 of 1992, as amended, establishes eligibility and benefit provisions for the OPEB plan. Members are eligible to receive health, prescription drug, dental and vision coverage on the first day they start receiving pension benefits. There is no provision for ad hoc or automatic increases. The Judges' Retirement Act requires joint authorization by DMB and the Civil Service Commission to make changes to retiree medical benefit plans.

Under the Michigan Judges' Retirement Act, Plan 1 or 2, members may enroll in the State Health Plan when they retire. Five percent of the health insurance premium is deducted from the monthly pension check until age 65, at which time Medicare provides primary health insurance coverage. All other members may enroll in the State Health Plan during an open enrollment period. The total premium is deducted from the monthly pension check. The active employee payroll contribution rate to fund health benefits for the Plan 1 or 2 members was 2.0% for 2008 and 2007. There are no required employer contributions to fund health benefits.

All retirees may enroll in the state dental and/or vision plan during an open enrollment period. The total premium is deducted from the monthly pension check.

Retirees of Plan 1 and 2 are provided with life insurance coverage equal to 25% of the active life insurance coverage and \$1,000 for each dependent. Premiums are fully paid by the State for Plan 1 and 2 members. All others must pay the full premium.

The number of participants and other relevant financial information are as follows:

<b>Health, Dental, and Vision Plan</b>	<b>2008</b>	<b>2007</b>
Eligible participants	540	542
Participants receiving benefits:		
Health	83	87
Dental	146	150
Vision	116	120
Expenses for the year	\$ 831,953	\$ 611,246
Employer payroll contribution rate	0%	0%

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Basis of Accounting and Presentation*

The System's financial statements are prepared using the accrual basis of accounting. Court filing fees are recognized as revenue in the period received. Contributions from the State are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

# FINANCIAL SECTION

## Notes to Basic Financial Statements (continued)

### **Reserves**

Public Act 234 of 1992, as amended, created several reserves. The reserves are described below.

Reserve for Employee Contributions - This reserve represents active member contributions, payments for the purchase of service credit, repayment of previously refunded contributions and interest less amounts transferred to the Reserve for Retirement Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and transferring inactive reserves. At September 30, 2008, and 2007, the balance in this reserve was \$48.4 million and \$44.6 million, respectively.

Reserve for Employer Contributions - This reserve represents court fees, late fees, interest payments, employer contributions, and State appropriations. Amounts are transferred annually from this reserve to the Reserve for Retired Benefit Payments to fund that reserve. In addition, the reserve transfers court fees to the Supreme Court in accordance with statutory requirements. At September 30, 2008, and 2007, the balance in this reserve was \$6.7 million and \$17.3 million, respectively.

Reserve for Retired Benefit Payments - This reserve represents the reserves for payment of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve from the Reserve for Employee Contributions and the Reserve for Employer Contributions. Monthly benefits, which are paid to the retiree, reduce the reserve. At the end of each fiscal year, an amount is transferred from the Reserve for Employer Contributions to bring the reserve into balance with the actuarial present value of retirement allowances. At September 30, 2008, and 2007, the balance in this reserve was \$145.1 million and \$139.7 million, respectively.

Reserve for Undistributed Investment Income - This reserve is credited with all investment earnings, changes in fair value, gifts to the System, and forfeited contributions. All administrative expenses are paid from this reserve and interest is transferred annually to the other reserves. At September 30, 2008, and 2007, the balance in this reserve was \$69.4 million and \$134.1 million, respectively.

Reserve for Health (OPEB) Benefits - This reserve is credited with member contributions for health, dental and vision benefits. The required contribution is based on pay-as-you-go funding. It represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. However, the actual annual contributions have been less than the annual required contribution (the ARC). Health, dental, and vision benefits are paid from this reserve. At September 30, 2008, and 2007, the balance in this reserve was \$1,797 and \$41,307 respectively.

In fiscal year 2008 the State of Michigan adopted the reporting requirement promulgated by the Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. For fiscal years 2007 and previous, retiree related OPEB activity was accounted for in the State Sponsored Group Insurance (SSGI) Fund which, under section 24 of Public Act 431 of 1984, as amended, bore the risk of any losses in years where expenses exceeded revenues. The SSGI Fund is reported as an internal service fund in the State of Michigan's Comprehensive Annual Financial Report and GASB Statement No. 10 was the relevant guidance for retiree related OPEB. GASB Statement No. 45 amends GASB Statement No. 10 to require the exclusion of retiree OPEB activity from the SSGI Fund and account for it separately in other employee benefit trust funds. All retiree related activity, including the restatement of October 1, 2007 accumulated net assets in the amount of \$108,745, is included in the reserve for OPEB related benefits.

### **Reporting Entity**

The System is a pension and other employee benefit trust fund of the State. As such, the System is considered part of the State and is included in the State's Comprehensive Annual Financial Report as a pension and other employee benefit trust fund. The System and its Board are not financially accountable for any other organizations. Accordingly, the System is the only entity included in this financial report.

# FINANCIAL SECTION

## Notes to Basic Financial Statements (continued)

### ***Benefit Protection***

Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment, garnishment, levy, execution, bankruptcy or other legal process except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an “anti-alienation” clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

### ***Fair Value of Investments***

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. Real estate debt is valued on the basis of future principal and interest payments, and is discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

### ***Investment Income***

Dividend and interest income is recognized on the accrual basis. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments, which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

### ***Costs of Administering the System***

Each year a restricted general fund appropriation is requested to fund the on-going business operations of the System. These administrative costs are ultimately funded by the System through the regular transfer of funds from the System to the State’s general fund based on either a direct cost or allocation basis depending on the nature of the expense. Costs of administering the System are financed by undistributed investment income of the System.

### ***Property and Equipment***

Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds \$5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Other Postemployment Benefit Plan Net Assets. Such assets are depreciated on a straight-line basis over 10 years. The System does not have equipment that falls within these parameters.

### ***Related Party Transactions***

Leases and Services - The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State. The space and services are not otherwise available by competitive bid. The following summarizes costs incurred by the System for such services.

	<u>2008</u>	<u>2007</u>
Building Rentals	\$ 1,552	\$ 1,377
Technological Support	15,784	15,998
Attorney General	12,647	12,415
Investment Services	66,925	60,907
Personnel Services	15,996	15,709

# FINANCIAL SECTION

## Notes to Basic Financial Statements (continued)

Cash - On September 30, 2008, and 2007, the System had \$6.2 million and \$1.2 million, respectively in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to \$36.2 thousand and \$82.4 thousand for the years ended September 30, 2008, and 2007, respectively.

### *Excess Benefits*

Internal Revenue Service (IRS) Code Section 415 requires that, for individuals who receive retirement benefits in excess of established limits, these benefits are recorded and reported outside of the pension plan in order to keep the qualified status of the plan. This includes coordination of benefit issues whereby a retiree participates in more than one qualified plan. In fiscal years 2008 and 2007, the System provided excess benefits to one retiree.

### *Reclassification of Prior Year Amounts*

Certain prior year amounts have been reclassified to conform with the current year presentation.

## NOTE 3 - CONTRIBUTIONS AND FUNDED STATUS

### *Contributions*

Members' contributions range from 3.5% to 7% of their salary depending on the plan (described in statute). Contributions are tax deferred under Section 414(h)(2) of the Internal Revenue Code, except for probate judges whose contributions are tax deferred only if the local unit of government has adopted a resolution to do so. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

The State contributes annually the greater of 3.5% of the aggregate annual compensation of State paid base salaries, or the difference between the total actuarial requirement of current service and unfunded actuarial liabilities minus the revenues from court filing fees and member contributions. Although contributions are expressed as a percentage of payroll, because the system is a closed plan, the actuarial valuation calculates a level dollar amount for funding purposes. In fiscal year 2008 no employer contributions were required based on the annual actuarial valuation. A contribution rate of 0.56% of payroll was required in fiscal year 2007. If the court fees deposited in the reserve for employer contributions equal the amount needed in addition to other publicly financed contributions to sustain the required level of publicly financed contributions, Section 304(4) requires court fees to be deposited in the court fee fund in the State Treasury. The State Treasurer transmits the money in the court fee fund, not exceeding \$2.2 million in any fiscal year, to the court equity fund for operational expenses of trial courts.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement benefits, the unfunded (overfunded) actuarial accrued liability is amortized over a 28 year period for the 2008 fiscal year and 29 year period for the 2007 fiscal year. For OPEB benefits, the unfunded (overfunded) actuarial accrued liability is amortized over a maximum period of 30 years.

Actual employer contributions (court fees) for retirement benefits were \$44.4 thousand and \$231.2 thousand for fiscal years 2008 and 2007, respectively, representing 0.15% of annual covered payroll for the year ended September 30, 2008, and 0.78% of annual covered payroll for the year ended September 30, 2007. Required employer contributions based on previous year actuarial valuations for pensions included:

1. \$3.2 million and \$3.5 million for fiscal years 2008 and 2007, respectively, for the normal cost of pensions representing 10.8% and 10.6% (before reconciliation) of annual covered payroll for fiscal years 2007 and 2006, respectively.

# FINANCIAL SECTION

## Notes to Basic Financial Statements (continued)

2. (\$4.6) million and (\$3.3) million for fiscal years 2008 and 2007, respectively, for amortization of overfunded actuarial accrued liability representing (15.7)% and (10.0)% (before reconciliation) of annual covered payroll for fiscal years 2007 and 2006, respectively.

Actual employer contributions (court fees) for other postemployment benefits (OPEB) were \$115.0 thousand for fiscal years 2008 and 2007, representing 1.8% of annual covered payroll for the year ended September 30, 2008 and 1.8% of annual covered payroll for the year ended September 30, 2007. Required employer contributions based on previous year actuarial valuations for OPEB included:

1. \$235.3 thousand and \$240.2 thousand for fiscal years 2008 and 2007, respectively, for the normal cost of OPEB representing 3.9% and 3.9% (before reconciliation) of annual covered payroll for fiscal years 2007 and 2006, respectively.
2. \$246.4 thousand and \$233.5 thousand for fiscal years 2008 and 2007, respectively, for amortization of unfunded actuarial accrued liability representing 4.0% and 3.8% (before reconciliation) of annual covered payroll for fiscal years 2007 and 2006, respectively.

The system is required to reconcile with actuarial requirements annually. Any funding excess or deficiency for pension benefits is smoothed over 5 years. One fifth (20%) of the funding excess or deficiency is included in each of the subsequent years' contribution, and is not recognized as a payable or receivable in the accounting records.

### ***Funded Status***

Participating employers are required to contribute at an actuarially determined rate for both pension benefits and OPEB. For fiscal year 2008, the actuarial accrued liability (AAL) for pension benefits was \$247.0 million, and the actuarial value of assets was \$303.7 million, resulting in an overfunded actuarial accrued liability (UAAL) of \$(56.7) million and a funded ratio of 123.0%. The covered payroll (annual payroll of active employees covered by the plan) was \$29.5 million and the ratio of the UAAL to the covered payroll was (192.2)%.

For fiscal year 2008, the actuarial accrued liability (AAL) for OPEB benefits was \$6.7 million, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$6.7 million and a funded ratio of 0.0%. The covered payroll (annual payroll of active employees covered by the plan) was \$5.9 million, and the ratio of the UAAL to the covered payroll was 113.0%.

### ***Actuarial Valuations and Assumptions***

Actuarial valuations for both the pension and OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial value of plan assets for both pension and OPEB plans is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 25 for pension contributions and GASB Statement No. 43 for OPEB contributions.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

# FINANCIAL SECTION

## Notes to Basic Financial Statements (continued)

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

### Summary of Actuarial Assumptions

Valuation Date	9/30/2008
Actuarial Cost Method	Entry Age, Normal
Amortization Method - Pension	Level dollar, Closed
Amortization Method - OPEB	Level Percent of Payroll, Closed
Remaining Amortization Period	28 years *
Asset Valuation Method - Pension	5-Year Smoothed Market
Asset Valuation Method - OPEB	Market
Actuarial Assumptions:	
Wage Inflation Rate	3.5%
Investment Rate of Return - Pension	8.0%
Investment Rate of Return - OPEB	4.0%
Projected Salary Increases	4.0%
Cost-of-Living Pension Adjustments	Assumed 4% Compounded for those eligible
Healthcare Cost Trend Rate	10.0% Year 1 graded to 3.5% Year 12
Other Assumptions OPEB only:	
Opt Out Assumption	0% of eligible participants are assumed to opt out of the retiree health plan
Survivor coverage	75% of male retirees and 60% of female retirees are assumed to have coverage continuing after the retiree's death
Coverage Election at retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents

\*Based on the provisions of GASB Statement No. 25, 43 and 45 when the actuarial accrued liability for a defined benefit pension plan is underfunded or overfunded, the difference should be amortized over a period not to exceed thirty years for the fiscal periods beginning on or after June 15, 2006.

### NOTE 4 - INVESTMENTS

#### *Investment Authority*

Under Public Act 380 of 1965, as amended, the authority for the purchase and the sale of investments resides with the State Treasurer. Investments are made subject to the Michigan Public Pension Investment Act, Public Act 314 of 1965, as amended. The Michigan Public Pension Investment Act authorizes, with certain restrictions, the investment of pension fund assets in stocks, corporate and government bonds and notes, mortgages, real estate, and certain short-term and alternative investments. Investments must be made for the exclusive purposes of providing benefits to active members, retired members and beneficiaries, and for defraying the expenses of investing the assets.

Under Public Act 314 of 1965, as amended, the State Treasurer may invest up to 5% of the System's assets in small businesses having more than one-half of assets or employees in Michigan as described in section 20(a) of the Act and up to 20% of the System's assets in investments not otherwise qualified under the Act as described in section 20(d). Alternative investments include limited partnerships and distributions from these partnerships in the form of bonds, preferred stock, common stock and direct investments.



# FINANCIAL SECTION

## Notes to Basic Financial Statements (continued)

### *Derivatives*

The State Treasurer employs the use of derivatives in the investment of the pension and other employee benefit trust funds (the trust funds).

Derivatives are used in managing the trust funds portfolios, but uses do not include speculation or leverage of investments. Less than 12% of the total trust funds' portfolio has been invested from time to time in futures contracts, collateralized mortgages, and swap agreements. State investment statutes limit total derivative exposure to 15% of a funds' total asset value, and restrict uses to replication of returns and hedging of assets. Swap agreements represent the largest category of derivatives used, and they represented 4.7% of market value of total pooled assets on September 30, 2008, and 6.2% of market value of total pooled assets on September 30, 2007. Futures contracts represent the second largest category of derivatives used, and they represented 0.6% of market value of total pooled assets on September 30, 2008, and 0.2% of market value of total pooled assets on September 30, 2007.

To enhance management flexibility, the State Treasurer has traded futures contracts tied to Bond indices and Standard and Poor's indices. The bond futures are combined with the rest of the fixed income investments to manage interest rate risk. The Standard and Poor's futures contracts are combined with short-term investments or with underlying stock to replicate or enhance the return of the Standard and Poor's indices.

To diversify the trust funds' portfolio, the State Treasurer has entered into swap agreements with investment grade counterparties, which are tied to stock market indices in the United States and twenty-two foreign countries. The notional amounts of the swap agreements at September 30, 2008, and 2007, were \$18.6 million and \$15.9 million, respectively. Approximately one-half of the notional amount tied to foreign stock market indices is hedged against foreign currency fluctuations. The swap agreements provide that the System will pay quarterly, over the term of the swap agreements, interest indexed to the three month London Inter Bank Offer Rate (LIBOR), adjusted for an interest rate spread, on the notional amount stated in the agreements. At the maturity of the swap agreements, the pension fund will either receive the increase in the value of the equity indices from the level at the inception of the agreements, or pay the decrease in the value of the indices. Swap agreement maturity dates range from October 2008 to July 2011. U.S. domestic LIBOR based floating rate notes and other investments earning short-term interest are held to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these dedicated notes and short-term investments.

The value of these synthetic equity structures is a combination of the value of the swap agreements and the value of the notes and short-term investments. The book value represents the cost of the notes and short-term investments. The current value represents the current value of the notes and short-term investments and the change in value of the underlying indices from the inception of the swap agreements. The current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. For fiscal years ending September 30, 2008, and 2007, international equity investment programs involving swaps, received realized gains and earned interest income of \$3.7 million and \$6.3 million, respectively.

The unrealized loss of \$5.7 million at September 30, 2008, primarily reflects the decreases in international stock indices and changes in currency exchange rates. The combined swap structure generally realizes gains and losses on a rolling three-year basis.

The respective September 30, 2008, and 2007 swap values are as follows:

	<u>Notional Value</u>	<u>Current Value</u>
9/30/2008 (dollars in millions)	\$ 18.6	\$ 13.2
9/30/2007 (dollars in millions)	15.9	20.7

# FINANCIAL SECTION

## Notes to Basic Financial Statements (continued)

### *Securities Lending*

State statutes allow the System to participate in securities lending transactions, and the System has, by way of an Agreement, authorized by Credit Suisse, the agent bank, to lend the System's securities to broker-dealers and banks pursuant to a form of loan agreement.

During the fiscal year, the agent bank lent, at the direction of the State Treasurer, the System's securities and received cash (United States) as collateral. Borrowers were required to deliver collateral for each loan equal to (i) in the case of loaned securities denominated in United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments, 102% of the market value of the loaned securities; and (ii) in the case of loaned securities not denominated in United States dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

The System did not impose any restrictions during the fiscal year on the amount of loans that the agent bank made on its behalf and the agent bank indemnified the System by agreeing to purchase replacement securities, or return cash collateral in the event a borrower failed to return the loaned security or pay distributions thereon, due to the borrower's insolvency. There was one such failure by a borrower during the fiscal year, Lehman Brothers, Inc. (September 2008). However, there were no losses during the fiscal year resulting from the default of the borrower as the agent bank, Credit Suisse has indemnified the System and has actively been replacing all outstanding loans with Lehman Brothers.

Under Master Securities Lending Agreements between the System and each borrower, the System and the borrowers have the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in assets held in a collateral account. As of September 30, 2008, such assets had an average weighted maturity to next reset of 32 days and an average weighted maturity of 3.3 years. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On September, 30, 2008, the System had no credit risk exposure to borrowers. The cash received for securities on loan for the System as of September 30, 2008, was \$47,518,751. The fair market value of assets held in the dedicated collateral account as managed by Credit Suisse and held by the custodian for the System as of September 30, 2008, was \$36,415,878. The carrying amount, which is the fair market value, of securities on loan for the system as of September 30, 2008, was \$43,289,523.

Gross income, including capital gains, from security lending for the fiscal year with Credit Suisse was \$2,311,871. Expenses associated with this income were the borrower's rebate of \$1,891,932 and fees paid to the agent bank of \$74,461.

Substantial volatility in the financial markets impacted the fair value estimates for securities lending collateral held at September 30, 2008. The System recorded an unrealized loss of \$11.1 million at September 30, 2008 for securities lending collateral.

### *Risk*

In accordance with GASB Statement No. 40, investments require certain disclosures regarding policies and practices, and the risks associated with them. The credit risk (including custodial credit risk and concentration of credit risk), the interest rate risk, and the foreign currency risk are discussed in the following paragraphs. Amounts represent the pro-rata share of the underlying investments as required by GASB Statement No. 40. These are held in internal investment pools and reported as such in the financial statements.

Credit Risk - Credit risk is the risk that an issuer will not fulfill its obligations.

- Short-Term Fixed Income Investments - Prime commercial paper investments must be rated A-1 or P-1 at the time of purchase as rated by the two major rating services Standard and Poor's Corporation (S&P) and Moody's Investor Service (Moody's), respectively. Borrowers must have at least \$400.0 million in commercial paper outstanding, and the State Treasurer may not invest in more than 10% of the borrowers outstanding debt. The investments are further limited to \$200.0 million in any borrower, unless the borrower has an A-1+ rating in which case the investment is not to exceed \$300.0 million.

# FINANCIAL SECTION

## Notes to Basic Financial Statements (continued)

- Long-Term Fixed Income Investments – These investments must be investment grade or better at the time of purchase unless specific requirements are met as defined by Public Act 314 of 1965, as amended, and the State Treasurer's investment policy. Law defines investment grade as investments in the top four major grades, rated by two national rating services, S&P (AAA, AA, A, BBB) and Moody's (Aaa, Aa, A, Baa). At September 30, 2008, the System was in compliance with the policy in all material aspects.

### Rated Debt Investments (in thousands) As of September 30, 2008 and 2007

Investment Type	2008				2007			
	Fair Value	S&P	Fair Value	Moody's	Fair Value	S&P	Fair Value	Moody's
<b>Short Term</b>	\$ 8,920	A-1	\$ 8,920	P-1	\$ 15,213	A-1	\$ 15,936	P-1
	-	NR	-	NR	1,622	NR	900	NR
<b>Government Securities</b>								
US Agencies - Sponsored	10,180	AAA	10,180	Aaa	18,922	AAA	18,922	Aaa
<b>Corporate Bonds &amp; Notes</b>								
	2,871	AAA	2,398	Aaa	3,559	AAA	3,301	Aaa
	2,941	AA	3,258	Aa	4,035	AA	4,473	Aa
	9,147	A	8,828	A	7,309	A	6,999	A
	4,621	BBB	4,867	Baa	3,242	BBB	3,493	Baa
	86	BB	100	Ba	102	BB	96	Ba
	21	B	7	B	22	B	-	B
	3	CCC	18	Caa	-	CCC	10	Caa
	-	CC	2	Ca	-	CC	-	Ca
	-	C	1	C	-	C	-	C
	1	D	-	D	-	D	-	D
	493	NR	706	NR	799	NR	696	NR
<b>International <sup>1</sup></b>								
	2,589	AAA	2,589	Aaa	1,659	AAA	1,659	Aaa
	6,692	AA	7,503	Aa	4,764	AA	7,881	Aa
	7,388	A	7,326	A	2,289	A	503	A
	1,251	NR	501	NR	1,834	NR	502	NR
<b>Securities Lending Collateral <sup>2</sup></b>								
	11,071	AAA	11,375	Aaa	-		-	
	9,460	AA	10,723	Aa	-		-	
	9,801	A	8,392	A	-		-	
	2,531	BBB	4,013	Baa	-		-	
	499	BB	23	Ba	-		-	
	108	B	382	B	-		-	
	106	D	-	D	-		-	
	2,760	NR	1,428	NR	-		-	
<b>Total</b>	<u>\$ 93,540</u>		<u>\$ 93,540</u>		<u>\$ 65,371</u>		<u>\$ 65,371</u>	

NR - not rated

<sup>1</sup> International Investment types consist of domestic floating rate note used as part of a Swap strategy.

<sup>2</sup> Securities lending collateral ratings are unavailable for September 30, 2007.

# FINANCIAL SECTION

## Notes to Basic Financial Statements (continued)

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either:

- The counterparty or
- The counterparty's trust department or agent but not in the government name.

The State Treasurer does not have a policy for custodial credit risk. However, the State's custodial bank had a credit rating of AA at September 30, 2008. As of September 30, 2008, and 2007, government securities with a market value of \$145.0 thousand and \$132.0 thousand, respectively, were exposed to custodial credit risk. These securities were held by the counterparty not in the name of the System.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Other than obligations issued, assumed or guaranteed by the United States, its agencies or United States government sponsored enterprises, the System is prohibited by Public Act 314 of 1965, as amended, from investing in more than 5% of the outstanding obligations of any one issuer or investing more than 5% of a System's assets in the obligations of any one issuer.

At September 30, 2008, and 2007, there were no investments in any single issuer that accounted for more than 5% of the System's assets nor were there any investments totaling more than 5% of the obligations of any one issuer, other than U.S. Government Securities as described above.

Interest Rate Risk - Fixed Income Investments - Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

The State Treasurer's policy states that cash equivalents are invested in short-term fixed income securities with an average weighted maturity of less than one year to provide liquidity and safety of principal from capital market and default risk. At September 30, 2008, and 2007, the fair value of the System's prime commercial paper was \$8.9 million and \$16.8 million with the weighted average maturity of 5 days and 12 days, respectively.

The State Treasurer does not have a policy regarding interest rate risk for long-term debt investments. However, the trust funds are invested with a long-term strategy. The goal is to balance higher returns while accepting minimum risk for the return. Analyzing the yield curve on individual securities as compared to U.S. Treasuries determines, in part, what is an acceptable risk for the return. Therefore, market conditions such as lower interest rates result in shorter duration and higher interest rates result in longer duration.

# FINANCIAL SECTION

## Notes to Basic Financial Statements (continued)

### Debt Securities (in thousands) As of September 30, 2008 and 2007

	2008		2007	
	Fair Value	Effective Duration in Years	Fair Value	Effective Duration in Years
<b>Government</b>				
U. S. Treasury	\$ 593	6.8	\$ 10,151	4.8
U. S. Agencies - Backed	12,843	5.4	8,664	5.7
U. S. Agencies - Sponsored	10,180	4.1	18,922	3.3
<b>Corporate</b>	20,184	5.4	19,068	4.9
<b>International*</b>				
U. S. Treasury	-	0.0	500	0.1
Corporate	17,919	0.03	10,545	0.1
<b>Total</b>	<u>\$ 61,719</u>		<u>\$ 67,850</u>	

Debt securities are exclusive of securities lending collateral.

\*International contains U.S. Government and Corporate Debt Securities as a part of their derivative strategies. The interest rates reset on a quarterly basis for these securities.

**Foreign Currency Risk** - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

The System invests in various securities denominated in foreign currencies. These investments are limited to 20% of the total assets of the System with an additional limit of 5% of the outstanding foreign securities of any single issuer. No investment is allowed in a country that has been identified by the United States State Department as engaging in or sponsoring terrorism. These limits are set forth in Public Act 314 of 1965, as amended. The types of foreign investments include equities, fixed income, mutual funds, real estate, and limited partnerships. At September 30, 2008, and 2007, the total amount of foreign investment subject to foreign currency risk was \$20.5 million and \$27.3 million which amounted to 7.3% and 8.1% of total investments (exclusive of securities lending collateral) of the System, respectively.

# FINANCIAL SECTION

## Notes to Basic Financial Statements (continued)

Foreign Currency Risk  
(in thousands)  
As of September 30, 2008

Region	Country	Currency	Alt. Invest. Market Value in U.S. \$	Equity Market Value in U.S. \$	Real Estate Market Value in U.S. \$	International						
						Equities Market Value in U.S. \$	Derivatives Market Value in U.S. \$ *					
<u>AMERICA</u>												
	Canadian	Dollar				\$	31					
	Mexico	Peso		\$	267							
<u>EUROPE</u>												
	European Union	Euro	\$	4,000	404	184	\$ (488)					
	Switzerland	Franc			400	18	(83)					
	Sweden	Krona				5	(20)					
	Denmark	Krone				7	(19)					
	Norway	Krone				5	(25)					
	U.K.	Sterling	161	3		93	(505)					
<u>PACIFIC</u>												
	Australia	Dollar				22	(210)					
	China	Renminbi		51								
	Hong Kong	Dollar				5	(55)					
	Japan	Yen	18	554		55	(298)					
	Singapore	Dollar				8	(26)					
	South Korea	Won				-	(126)					
<u>MIDDLE EAST</u>												
	Israel	Shekel		2								
<u>VARIOUS</u>												
					\$	5,689	10,381					
	Total		\$	4,179	\$	1,681	\$	5,689	\$	10,814	\$	(1,855)

\*International derivatives' market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2008 through July 2011, with an average maturity of 1.8 years.

# FINANCIAL SECTION

## Notes to Basic Financial Statements (continued)

### Foreign Currency Risk

(in thousands)

As of September 30, 2007

Region	Country	Currency	Alt. Invest.	Equity	Real Estate	International		
			Market Value	Market Value	Market Value	Equities	Derivatives	
			in U.S. \$	in U.S. \$	in U.S. \$	Market Value in U.S. \$	Market Value in U.S. \$ *	
<b><u>AMERICA</u></b>								
	Canada	Dollar				\$	336	
	Mexico	Peso		\$	519			
<b><u>EUROPE</u></b>								
	European Union	Euro	\$	3,231	289		1,336	
	Switzerland	Franc			356		\$	1,039
	Sweden	Krona					246	193
	Denmark	Krone			5		109	60
	Norway	Krone					75	17
	U.K.	Sterling					88	11
			132	26			650	432
<b><u>PACIFIC</u></b>								
	Australia	Dollar					326	178
	China	Renminbi		71				
	Hong Kong	Dollar					115	168
	India	Rupee		3				
	Japan	Yen	22	868			790	265
	Singapore	Dollar					41	29
	South Korea	Won					123	148
<b><u>VARIOUS</u></b>					\$	3,904	11,102	
	Total		\$	3,385	\$	2,137	\$	3,904
					\$	15,337	\$	2,540

\*International derivatives' market value exposure to foreign currency risk is the net amount of unrealized gains and unrealized losses. Maturity dates on these investments range from October 2007 through September 2010 with an average maturity of 1.2 years.

# FINANCIAL SECTION

## Notes to Basic Financial Statements (continued)

### NOTE 5 – ACCOUNTING CHANGES AND RESTATEMENT

The Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, has been adopted by the State of Michigan for fiscal year 2008. Statement No. 45 prohibits the reporting of retiree related postemployment benefits within the State Sponsored Group Insurance Fund, an internal service fund administratively established to provide health, long-term disability, life, vision, and dental coverage for participating employees and retirees. Beginning October 1, 2007, all retiree related activity, including an equity transfer of \$108,745 in accumulated net assets, is included in the Statements of OPEB Plan Net Assets and Changes in OPEB Plan Net Assets as reflected in this report.

The GASB has issued Statement No. 50, *Pension Disclosures*, which amends GASB Statements No. 25 and No. 27, and more closely aligns the financial reporting requirements for pensions with those for OPEB. This Statement was implemented in fiscal year 2007.

### NOTE 6 - COMMITMENTS AND CONTINGENCIES

Under the Administrative Procedures Act, members may appeal a decision made by the Board to the Circuit Court. Various cases that have exhausted the administrative procedures have been appealed in the court system. The cases are in the normal course of business and the System does not anticipate any material loss as a result of the contingent liabilities.

### NOTE 7 – SUBSEQUENT EVENTS

Since the close of the fiscal year, financial markets have experienced substantial volatility. Faced with the potential of increased problems in the financial markets, the Federal Reserve Board (the Fed) and U.S. Department of Treasury implemented the Troubled Asset Relief Program (TARP) to free up liquidity to be used in the broader economy. Frozen credit markets are expected to continue to impact the economy and all investments.



## Required Supplementary Information

### Schedules of Funding Progress

Expressing the net assets available for benefits as a percentage of the actuarial accrued liability provides one indication of the System's funding status. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the System. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded or overfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the System.

#### Pension Benefits (\$ in millions)

Valuation Date Sept 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1999	\$ 320.9	\$ 244.0	\$ (77)	131.8 %	\$ 50	(155.9) %
2000	274.8	204.2	(70.6)	134.6	37.0	(190.7)
2001	291.0	224.7	(66.3)	129.5	42.5	(155.7)
2002	291.7	229.2	(62.5)	127.3	42.4	(147.3)
2003	292.3	235.2	(57.1)	124.3	38.9	(146.6)
2004 *	286.9	236.4	(50.5)	121.3	37.5	(134.6)
2005	278.4	243.4	(35.0)	114.4	34.9	(100.3)
2006	282.8	243.7	(39.1)	116.0	33.1	(118.1)
2007	301.0	247.1	(53.9)	121.8	29.7	(181.5)
2008	303.7	247.0	(56.7)	123.0	29.5	(192.2)

\* Revised actuarial assumptions

#### Other Postemployment Benefits (\$ in millions)

Valuation Date Sept 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2006	\$ -	\$ 6.4	\$ 6.4	0.0 %	\$ 6.1	105.3 %
2007	-	6.6	6.6	0.0	6.1	107.5
2008	-	6.7	6.7	0.0	5.9	113.0

# FINANCIAL SECTION

## Required Supplementary Information (continued)

### Schedules of Employer Contributions

#### Pension Benefits

<u>Fiscal Year Ended Sept. 30</u>		<u>Annual Required Contribution (ARC)</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
1999	<sup>1</sup>	\$ 1,260,694	\$ 58,499	4.6 %
2000	<sup>2</sup>	(411,879)		0.0
2001	<sup>2</sup>	(955,186)		0.0
2002		(476,491)		0.0
2003		(135,812)		0.0
2004		(85,580)		0.0
2005	<sup>1</sup>	(441,948)	34,765	0.0
2006		607,883	653,587	108.0
2007		186,180	231,235	124.0
2008			44,406	0.0

<sup>1</sup> Revised actuarial assumptions.

<sup>2</sup> ARC is calculated as percentage of payroll reported to actuary.

#### Other Postemployment Benefits

<u>Fiscal Year Ended Sept. 30</u>		<u>Annual Required Contribution (ARC)</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
2007	\$	473,742	\$ 115,000	24.3 %
2008		481,673	115,000	23.9

# ***FINANCIAL SECTION***

## **Notes to Required Supplementary Information**

### **NOTE A - DESCRIPTION**

Ten year historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented in the preceding schedules. Other ten-year historical trend information related to the System is presented in the Statistical and Actuarial Sections of the report. This information is presented to enable the reader to assess the progress made by the System in accumulating sufficient assets to pay pension and other postemployment benefits as they become due. Because in the transition year the System was provided two years of information, the System is reporting three years of historical trend information on other postemployment benefits in accordance with GASB Statement No. 43.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension and other postemployment benefit obligations as a factor.

The Schedules of Funding Progress and Schedules of Employer Contributions are reported as historical trend information. The Schedules of Funding Progress are presented to measure the progress being made to accumulate sufficient assets to pay benefits when due. The Schedules of Employer Contributions are presented to show the responsibility of the Employer in meeting the actuarial requirements to maintain the System on a sound financial basis.

# FINANCIAL SECTION

## Supporting Schedules

### Comparative Summary Schedule of Pension Plan Administrative Expenses For Fiscal Years Ended September 30, 2008 and 2007

	2008	2007
<b>Personnel Services:</b>		
Staff Salaries	\$ 10,382	\$ 10,711
Retirement and Social Security	3,170	2,717
Other Fringe Benefits	2,444	2,281
<b>Total</b>	<b>15,996</b>	<b>15,709</b>
<b>Professional Services:</b>		
Accounting	2,697	2,709
Actuarial	52,000	89,300
Attorney General	12,647	12,415
Audit	32,866	31,426
Consulting	3,988	3,221
<b>Total</b>	<b>104,198</b>	<b>139,071</b>
<b>Building Equipment:</b>		
Building Rentals	1,552	1,377
Equipment Purchase, Maintenance, and Rentals	122	102
<b>Total</b>	<b>1,674</b>	<b>1,479</b>
<b>Miscellaneous:</b>		
Travel and Board Meetings	82	25
Office Supplies	59	99
Postage, Telephone and Other	4,917	8,655
Printing	1,478	812
Technological Support	15,784	15,998
<b>Total</b>	<b>22,320</b>	<b>25,589</b>
<b>Total Administrative Expenses</b>	<b>\$ 144,188</b>	<b>\$ 181,848</b>

### Comparative Summary Schedule of OPEB Plan Administrative Expenses For Fiscal Years Ended September 30, 2008 and 2007

	2008	2007
Health Fees	\$ 37,952	
Dental Fees	3,034	
Vision Fees	992	
<b>Total Administrative Expenses</b>	<b>\$ 41,978</b>	<b>-</b>

The OPEB plan administrative expenses of \$41,978 in 2008 results from the transfer of all retiree related OPEB activity, including administrative fees paid to insurance carriers, from the State Sponsored Group Insurance Fund in accordance with GASB Statement No. 45.

# FINANCIAL SECTION

## Supporting Schedules (continued)

### Schedule of Investment Expenses For Fiscal Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Real Estate Operating Expenses	\$ 1,654	\$ 10,422
Securities Lending Expenses	1,966,393	3,224,022
Other Investment Expenses*		
ORS-Investment Expenses	66,925	60,907
Custody Fees	6,403	7,106
Management Fees-Real Estate	88,475	35,237
Management Fees-Alternative	369,733	271,954
Management Fees-International	35,283	13,660
Research Fees	7,939	6,652
<b>Total Investment Expenses</b>	<u><u>\$ 2,542,805</u></u>	<u><u>\$ 3,629,960</u></u>

\* Refer to Investment Section for fees paid to investment professionals.

### Schedule of Payments to Consultants For Fiscal Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Independent Auditors	\$ 32,866	\$ 31,426
Consulting	3,988	3,221
Attorney General	12,647	12,415
Accounting	2,697	2,709
Actuary	52,000	89,300
<b>Total Payment to Consultants</b>	<u><u>\$ 104,198</u></u>	<u><u>\$ 139,071</u></u>

# FINANCIAL SECTION

## Supporting Schedules (continued)

### Detail of Changes in Plan Net Assets (Pension and Other Postemployment Benefits)

For the Year Ended September 30, 2008

	Employee Contributions	Employer Contributions	Retired Benefit Payments	Undistributed Investment Income	OPEB Related Benefits	Total
<b>Additions:</b>						
Member contributions	\$ 1,738,459				\$ 539,440	\$ 2,277,899
Investment income (loss):						
Net appreciation (depreciation) of fair value of investments				\$ (54,854,136)		(54,854,136)
Interest, dividends, and other				6,560,995	7,510	6,568,505
Investment expenses:						
Real estate operating expenses				(1,654)		(1,654)
Other investment expenses				(574,757)		(574,757)
Securities lending activities:						
Securities lending income				2,311,871		2,311,871
Securities lending expenses				(1,966,393)		(1,966,393)
Net investment income (loss)	-	-	-	(48,524,074)	7,510	(48,516,564)
Court fees			\$ 44,406		115,000	159,406
Transfers from other systems/funds					14,900	14,900
Miscellaneous income			10,124	883	3,543	14,550
<b>Total additions</b>	<b>1,738,459</b>	<b>-</b>	<b>54,530</b>	<b>(48,523,191)</b>	<b>680,393</b>	<b>(46,049,809)</b>
<b>Deductions:</b>						
Benefits paid to plan members and beneficiaries:						
Retirement benefits			19,180,381			19,180,381
Health benefits					720,335	720,335
Dental/vision benefits					69,640	69,640
Administrative expenses				144,188	41,978	186,166
<b>Total deductions</b>	<b>-</b>	<b>-</b>	<b>19,180,381</b>	<b>144,188</b>	<b>831,953</b>	<b>20,156,522</b>
<b>Net Increase (Decrease)</b>						
<b>Before Other Changes</b>	<b>1,738,459</b>	<b>-</b>	<b>(19,125,851)</b>	<b>(48,667,379)</b>	<b>(151,560)</b>	<b>(66,206,331)</b>
<b>Other Changes in Net Assets:</b>						
Interest allocation	3,425,533	\$ 1,387,060	11,172,312	(15,988,210)	3,305	-
Transfers upon retirement	(1,383,257)	(12,036,621)	13,419,878			-
<b>Total other changes in net assets</b>	<b>2,042,276</b>	<b>(10,649,561)</b>	<b>24,592,190</b>	<b>(15,988,210)</b>	<b>3,305</b>	<b>-</b>
<b>Net Increase (Decrease)</b>	<b>3,780,735</b>	<b>(10,649,561)</b>	<b>5,466,339</b>	<b>(64,655,589)</b>	<b>(148,255)</b>	<b>(66,206,331)</b>
<b>Net Assets Held in Trust for Pension and OPEB Benefits:</b>						
<b>Beginning of Year</b>	<b>44,633,895</b>	<b>17,338,249</b>	<b>139,653,898</b>	<b>134,052,556</b>	<b>150,052</b> *	<b>335,828,650</b>
<b>End of Year</b>	<b>\$ 48,414,630</b>	<b>\$ 6,688,688</b>	<b>\$ 145,120,237</b>	<b>\$ 69,396,967</b>	<b>\$ 1,797</b>	<b>\$ 269,622,319</b>

\*Restated

# FINANCIAL SECTION

## Supporting Schedules (continued)

### Detail of Changes in Plan Net Assets (Pension and Other Postemployment Benefits)

For the Year Ended September 30, 2007

	Employee Contributions	Employer Contributions	Retired Benefit Payments	Undistributed Investment Income	OPEB Related Benefits	Total
<b>Additions:</b>						
Member contributions	\$ 1,845,878				\$ 530,336	\$ 2,376,214
Investment income (loss):						
Net appreciation (depreciation) of fair value of investments				\$ 43,142,762		43,142,762
Interest, dividends, and other				6,841,622		6,841,622
Investment expenses:						
Real estate operating expenses				(10,422)		(10,422)
Other investment expenses				(395,516)		(395,516)
Securities lending activities:						
Securities lending income				3,361,439		3,361,439
Securities lending expenses				(3,224,022)		(3,224,022)
Net investment income (loss)	-	-	-	49,715,863	-	49,715,863
Court fees		\$ 186,180	\$ 45,055		115,000	346,235
Miscellaneous income			27,333	500		27,833
<b>Total additions</b>	<b>1,845,878</b>	<b>186,180</b>	<b>72,388</b>	<b>49,716,363</b>	<b>645,336</b>	<b>52,466,145</b>
<b>Deductions:</b>						
Benefits paid to plan members and beneficiaries:						
Retirement benefits			18,919,433			18,919,433
Health benefits					500,954	500,954
Dental/vision benefits					110,292	110,292
Refunds of member contributions	246,389		1,552			247,941
Administrative expenses				181,848		181,848
<b>Total deductions</b>	<b>246,389</b>	<b>-</b>	<b>18,920,985</b>	<b>181,848</b>	<b>611,246</b>	<b>19,960,468</b>
<b>Net Increase (Decrease)</b>						
<b>Before Other Changes</b>	<b>1,599,489</b>	<b>186,180</b>	<b>(18,848,597)</b>	<b>49,534,515</b>	<b>34,090</b>	<b>32,505,677</b>
<b>Other Changes in Net Assets:</b>						
Interest allocation	3,238,807	1,671,176	10,958,001	(15,868,519)	535	-
Transfers upon retirement	(5,160,667)	(5,408,810)	10,569,477			-
<b>Total other changes in net assets</b>	<b>(1,921,860)</b>	<b>(3,737,634)</b>	<b>21,527,478</b>	<b>(15,868,519)</b>	<b>535</b>	<b>-</b>
<b>Net Increase (Decrease)</b>	<b>(322,371)</b>	<b>(3,551,454)</b>	<b>2,678,881</b>	<b>33,665,996</b>	<b>34,625</b>	<b>32,505,677</b>
<b>Net Assets Held in Trust for</b>						
<b>Pension and OPEB Benefits:</b>						
<b>Beginning of Year</b>	<b>44,956,266</b>	<b>20,889,703</b>	<b>136,975,017</b>	<b>100,386,560</b>	<b>6,682</b>	<b>303,214,228</b>
<b>End of Year</b>	<b>\$ 44,633,895</b>	<b>\$ 17,338,249</b>	<b>\$ 139,653,898</b>	<b>\$ 134,052,556</b>	<b>\$ 41,307</b>	<b>\$ 335,719,905</b>

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# INVESTMENT SECTION

Prepared by Michigan Department of Treasury, Bureau of Investments

Jon M. Braeutigam, Director

Report on Investment Activity

Asset Allocation

Investment Results

List of Largest Stock Holdings

List of Largest Bond Holdings

Schedule of Investment Fees

Schedule of Investment Commissions

Investment Summary

# INVESTMENT SECTION

## Report on Investment Activity

### INTRODUCTION

The State Treasurer reports investment activity quarterly to the Investment Advisory Committee (Committee), which reviews the investments, goals, and objectives of the retirement funds and may submit recommendations regarding them to the State Treasurer. The Investment Advisory Committee may also, by a majority vote, direct the State Treasurer to dispose of any holdings that, in the Committee's judgment, are not suitable for the funds involved, and may, by unanimous vote, direct the State Treasurer to make specific investments.

The Investment Advisory Committee was created by Act 380 of the Public Acts of 1965. The three public members of the five-member committee are appointed by the Governor with the advice and consent of the Senate for three-year terms. The Director of the Department of Labor and Economic Growth and the Director of the Department of Management and Budget are ex-officio members. As of September 30, 2008, members of the Committee were as follows: David G. Sowerby, CFA (public member), Glenn P. Murray (public member), James B. Jacobs (public member), Keith W. Cooley (ex-officio member), and Lisa Webb Sharpe (ex-officio member). The public members serve without pay, but may be paid actual and necessary travel and other expenses.

### INVESTMENT POLICY & GOALS

Investment policy states that the fiduciary will operate within standard investment practices of the prudent person and in accordance with Public Employee Retirement System Investment Act 314 of 1965. The fiduciary is authorized to invest in government obligations, corporate obligations, various short-term obligations, corporate (domestic and international) stocks, private equity interests, mutual funds, real estate interests, and other investments subject to specific parameters. Above all, trust fund assets are to be invested for the exclusive benefit of the members of the System, in a fiduciary capacity.

The System's Proxy Voting Policy sets forth directives on the following issues: Boards of Directors, corporate governance, social issues, corporate restructurings and defenses. All proxies are reviewed and voted in accordance with the System's policy.

The primary function of the System is to provide retirement, survivor and disability benefits along with health and other postemployment benefits to its members. The State Treasurer is the sole investment fiduciary and custodian of the System's investments pursuant to State law. The goals of the System are:

1. Achieve the optimal rate of return possible within prudent levels of risk.
2. Maintain sufficient liquidity to pay benefits.
3. Diversify assets to preserve capital and avoid large losses.
4. Meet or exceed the actuarial assumption over the long-term.
5. Perform in the top half of the public plan universe over the long-term.
6. Exceed individual asset class benchmarks over the long-term.
7. Operate in a cost-effective manner.

The strategy for achieving these goals is carried out by investing the assets of the System according to a two-year asset allocation model. The System currently invests in seven different asset classes, which provides for a well-diversified portfolio.

# INVESTMENT SECTION

## Report on Investment Activity (continued)

### Asset Allocation (Excludes Collateral on Loaned Securities)

<u>Investment Category</u>	<u>As of 9/30/08 Actual %</u>	<u>Two-Year Target %</u>
Domestic Equities		33.0%
Domestic Equity - Active	25.7%	
Large Cap Core Pool	12.6%	
Large Cap Value Pool	3.9%	
Large Cap Growth Pool	5.2%	
Large Cap Sectors Pool	0.3%	
Large Cap Enhanced Pool	0.1%	
Manager of Managers Pool	0.3%	
Mid Cap Pool	2.2%	
Small Cap Pool	1.1%	
Domestic Equity - Passive	15.6%	
S&P 500 Index Pool	14.0%	
S&P MidCap Index Pool	1.6%	
International Equity	8.7%	15.0%
International Equity Pool - Passive	6.2%	
International Equity Pool - Active	2.5%	
Alternative Investments Pool	14.3%	12.0%
Real Estate Pool	15.9%	15.0%
Fixed Income	16.3%	16.0%
Government Bond Pool	7.5%	
Corporate Bond Pools	5.4%	
Fixed Income Bond Pools	3.2%	
Treasury Inflation Prot. Sec. Pool	0.0%	
CMBS Investment Pool	0.2%	
Short Term Investment Pool	3.5%	2.0%
Absolute Return	0.0%	4.0%
Real Return	0.0%	3.0%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>

## INVESTMENT AUTHORITY

Pursuant to State Law (Section 91 of Act No. 380 of the Public Acts of 1965, as amended), the State Treasurer, State of Michigan, is the investment fiduciary for the following four State sponsored retirement systems: Michigan Public School Employees' Retirement System, Michigan State Employees' Retirement System, Michigan State Police Retirement System, and Michigan Judges' Retirement System.

Act No. 314 of the Public Acts of 1965, as amended, authorizes the investment of assets of public employee retirement systems or plans created and established by the State or any political subdivision.

# INVESTMENT SECTION

## Report on Investment Activity (continued)

### INVESTMENT RESULTS

#### *Total Portfolio Results*

For the fiscal year ended September 30, 2008, the total System's rate of return was (11.7)% as compiled by State Street Investment Analytics. Annualized rates of return for the three-year period ending September 30, 2008, were 5.2%; for the five-year period were 7.8%; and for the ten-year period were 5.9%.

Returns were calculated using a time-weighted rate of return in accordance with industry standards, unless a modification is described in the discussion of the reported return.

The fiscal year's results were driven by double-digit declines in equities. Modest gains in real estate, alternative investments, and fixed income helped to moderate the decline in equities. Large Cap domestic equities peaked early in the fiscal year and began trending down as the collapse of the sub-prime market continued to reveal weakness in the financial markets. The decline deepened throughout the year as growing uncertainty about the macro economy gave way to de-leveraging across many asset classes. Early gains in the Real Estate pool were somewhat offset by lower valuations in the back half of the year as turmoil in the housing market began to spread to the commercial real estate market. Alternative Investments yielded mid-single digit returns and were also hampered by tighter credit markets and general economic weakness. Fixed Income also contributed positive returns but these returns also were hurt late in the fiscal year as spreads widened in response to fear of default in investment grade debt.

For the fiscal year, the Dow Jones Industrial Average provided a total return of (19.9)%, while the broader based S&P 500 declined (22.0)%. The Lehman Brothers U.S. Government/Credit Bond Index appreciated 2.4%.

The U.S. economy grew at an estimated rate of 2.4% in fiscal year 2008 as measured by real gross domestic product. While the growth rate was steady through each of the quarters, the mix did change as domestic investment spending weakened, but was offset by strong export growth. Residential fixed investment spending remained weak throughout all four quarters. The continued decline in housing values throughout the period, combined with declining equity markets, led to a severe negative wealth impact, which slowed personal consumption each quarter. Commodity prices continued their upward climb through the fiscal year, which helped to push the inflation rate up from 2.4% in the first quarter of the fiscal year, to an estimated 4.3% in the fourth. However, as problem consumer loans weighed on the global financial system, credit conditions deteriorated, and the global economic growth began to slow, which started to bring down commodity prices late in the fourth quarter of the fiscal year. Oil started the year near \$80 a barrel, peaked near \$145, before dropping to near \$100 in late September.

The Federal Reserve continued to cut interest rates, moving the Federal Funds rate from 4.75% in September 2007, to 2.00% in September of 2008. Faced with the potential of increased problems in the financial markets, the Fed and Treasury proposed a distressed asset purchase plan to Congress that could act as a backstop to pricing for certain illiquid assets, and free up liquidity to be used in the broader economy.

The System remains well diversified, both across and within asset classes, and positioned to benefit from long-term moderate economic growth.

#### *Large Cap Core Pool*

The objective of the pool of large company core stocks is to generate a rate of return from investment in common stocks and equity equivalents that exceeds that of the S&P 500 Index.

The pool invests primarily in equities and equity-related securities of U.S. companies with market capitalization generally greater than \$5 billion that have passed several screens based on the stocks' valuation, risk attributes and tracking error relative to the overall index. The goal is to build a portfolio of stocks that will provide excess returns relative to the S&P 500 while providing minimal tracking error to the index. At times a portion of the pool may be invested in exchange traded funds (ETFs) and fixed-income short-term securities with maturities of less than one year.

# INVESTMENT SECTION

## Report on Investment Activity (continued)

The pool invests in equities and equity related securities that are listed on U.S. national securities exchanges, including American Depositary Receipts (ADRs). It may also invest in stocks that are traded over-the-counter. The pool diversifies its investments by allocating its equities with consideration of the weightings of the S&P 500 Index.

The following summarizes the weightings of the pool as of September 30, 2008:

Technology	22.5 %
Healthcare	16.8
Energy	11.1
Financials	10.6
Industrials	9.7
Other (ETFs)	8.9
Consumer Discretionary	8.5
Consumer Staples	3.8
Utilities	3.0
Materials	2.2
Telecom	2.1
Short Term Investments	0.8
<b>Total</b>	<b><u>100.0 %</u></b>

The System's Large Cap Core pool achieved a total rate of return of (22.3)% for fiscal year 2008. This compared with (22.0)% for the S&P 500 Index.

At the close of fiscal year 2008, the Large Cap Core pool represented 12.6% of total investments. This compares to 15.0% for fiscal year 2007. The following summarizes the System's 0.5% ownership share of the Large Cap Core pool at September 30, 2008:

### Large Cap Core Pool (in thousands)

Short Term Pooled Investments	\$ 34
Equities	35,261
Settlement Principal Payable	(1,292)
Settlement Proceeds Receivable	1,396
Accrued Dividends	47
<b>Total</b>	<b><u>\$ 35,446</u></b>

### *Large Cap Value Pool*

The objective of the pool of large company value stocks is to generate a rate of return from investment in common stocks and equity equivalents that exceeds that of the S&P Citigroup Value Index.

The pool invests primarily in equities and equity-related securities of U.S. companies with market capitalization generally greater than \$5 billion that are significantly under-priced as measured by several valuation criteria, including price-to-earnings and price-to-book value ratios, as well as below fair value as determined by several quantitative and qualitative valuation models. The focus is on companies trading 25% or more below estimated fair value with experienced management and conservative accounting practices. At times a portion of the pool may be invested in fixed-income short-term securities with maturities of less than one year.

# INVESTMENT SECTION

## Report on Investment Activity (continued)

The pool invests in equities and equity related securities that are listed on U.S. national securities exchanges, including American Depositary Receipts (ADRs). It may also invest in stocks that are traded over-the-counter. The pool diversifies its investments by allocating its equities among ten sectors with some consideration to the weightings of the S&P Citigroup Value Index.

The following summarizes the weightings of the pool as of September 30, 2008:

Financials	22.0 %
Healthcare	21.4
Short Term Investments	14.3
Consumer Discretionary	10.5
Technology	9.8
Consumer Staples	6.7
Energy	5.8
Other (ETFs)	3.1
Industrials	2.9
Materials	2.0
Telecom	1.1
Utilities	0.4
<b>Total</b>	<b><u>100.0 %</u></b>

The System's Large Cap Value pool achieved a total rate of return of (23.7)% for fiscal year 2008. This compared with (24.5)% for the S&P 500 Citigroup Value Index.

At the close of fiscal year 2008, the Large Cap Value pool represented 3.9% of total investments. This compares to 4.5% for fiscal year 2007. The following summarizes the System's 0.5% ownership share of the Large Cap Value pool at September 30, 2008:

<b>Large Cap Value Pool</b> <b>(in thousands)</b>	
Short Term Pooled Investments	\$ 1,253
Equities	9,643
Settlement Principal Payable	(353)
Settlement Proceeds Receivable	352
Accrued Dividends	18
<b>Total</b>	<b><u>\$ 10,913</u></b>

### *Large Cap Growth Pool*

The primary investment objective is to generate a rate of return from investment in common stocks and equity equivalents that exceeds that of the S&P Citigroup Growth Index.

The pool invests primarily in equities and equity-related securities of U.S. companies with market capitalization generally greater than \$3 billion and which offer above-average and sustainable growth in revenues, earnings, and cash flow, identifiable catalysts, and reasonable valuations relative to their fundamentals. The focus is on companies with a strong presence in categories anticipated to be fast growing, with high rates of unit sales growth and seasoned management. At times a portion of the pool may be invested in fixed-income short-term securities with maturities of less than one year.

# INVESTMENT SECTION

## Report on Investment Activity (continued)

The pool invests in equities and equity related securities that are listed on U.S. national securities exchanges, including American Depositary Receipts (ADRs). It may also invest in stocks that are traded over-the-counter. The pool diversifies its investments by allocating its equities with weightings that approximate the weightings of the S&P Citigroup Growth Index.

The following summarizes the weightings of various sectors in the pool as of September 30, 2008:

Technology	26.1 %
Energy	17.5
Healthcare	15.8
Industrials	11.2
Consumer Staples	10.4
Consumer Discretionary	6.8
Financials	5.3
Short Term Investments	3.2
Other (ETFs)	2.5
Materials	1.2
<b>Total</b>	<b><u>100.0 %</u></b>

The Large Cap Growth pool's total rate of return was (21.2)% for fiscal year 2008 versus (19.4)% for the S&P 500 Citigroup Growth Index.

At the close of fiscal year 2008, the Large Cap Growth pool represented 5.2% of total investments. This compares to 5.4% for fiscal year 2007. The following summarizes the System's 0.5% ownership share of the Large Cap Growth pool at September 30, 2008:

### Large Cap Growth Pool (in thousands)

Short Term Pooled Investments	\$	336
Equities		14,357
Settlement Principal Payable		(376)
Settlement Proceeds Receivable		388
Accrued Dividends		10
<b>Total</b>	<b>\$</b>	<b><u>14,715</u></b>

### *Large Cap Sectors Pool*

The primary investment objective is to generate a rate of return from investments in exchange traded funds (ETFs) and equivalents that exceeds the S&P 500 Index.

The pool was created in January 2008 and invests primarily in ETFs of sectors and broad market indices that offer above-average return potential based on pricing anomalies and timeliness within the investment life cycle.

The Large Cap Sectors pool return from inception to fiscal year end was (14.9)%.

# INVESTMENT SECTION

## Report on Investment Activity (continued)

At the close of fiscal year 2008, the Large Cap Sectors pool represented 0.3% of total investments. The following summarizes the System's 0.7% ownership share of the Large Cap Sectors pool at September 30, 2008:

### Large Cap Sectors Pool (in thousands)

Short Term Pooled Investments	\$	270
Equities		414
Accrued Dividends		10
<b>Total</b>	<b>\$</b>	<b>694</b>

### *Large Cap Enhanced Pool*

The primary investment objective is to generate a rate of return that exceeds the S&P 500 Index by producing a variety of absolute return strategies across multiple asset classes.

In February 2008, FrontPoint Partners LLC was hired to specialize in producing a diverse group of alternative investment strategies that aims to deliver risk-adjusted absolute returns uncorrelated to broad market indices.

The Large Cap Enhanced pool return from inception to fiscal year end was (20.8)%.

At the close of fiscal year 2008, the Large Cap Enhanced pool represented 0.1% of total investments. The following summarizes the System's 0.2% ownership share of the Large Cap Enhanced pool at September 30, 2008:

### Large Cap Enhanced Pool (in thousands)

Total Investment	\$	396
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### *Manager of Managers Pool*

The primary investment objective is to generate a rate of return from investment in common stocks and equivalents that exceeds the S&P 1500 Index by selecting stocks of all market capitalizations and investment styles.

In October 2007, three new managers were hired that specialize in creating Manager-of-Manager portfolios, allowing the System an opportunity to invest in minority- and women-owned and emerging investment managers in a risk-controlled environment.

The Manager of Managers pool return from inception to fiscal year end was (21.5)%.



# INVESTMENT SECTION

## Report on Investment Activity (continued)

At the close of fiscal year 2008, the Manager of Managers pool represented 0.3% of total investments. The following summarizes the System's ownership share and composition of the Manager of Managers pool at September 30, 2008:

### Manager of Managers Pool (in thousands)

	Attucks Asset Management	Bivium Capital Partners	Leading Edge Investment Advisors
Total Investment	\$ 385	\$ 288	\$ 204
Ownership Percentage	0.5%	0.5%	0.5%

### Mid Cap Pool

Nine Mid Cap managers were selected in 2005 and they were funded out of the Large Cap Value and Growth pools. The manager's investment styles range from value, growth and core and they select stocks with average market capitalizations greater than \$1 billion but less than \$5 billion. The investment objective of the Mid Cap manager pool is to generate a combined rate of return from investment in common stocks and equivalents that exceeds the S&P 400 Mid Cap Index.

The Mid Cap pool return for fiscal year 2008 was (20.5)% versus the benchmark's (16.7)%.

At the close of fiscal year 2008, the Mid Cap pool represented 2.2% of total investments. This compares to 2.3% for fiscal year 2007. The following summarizes the System's ownership share and composition of the Mid Cap pool at September 30, 2008:

### Mid Cap Value and Core Pools (in thousands)

	Artisan Mid Cap Value	Cramer Rosenthal McGlynn Mid Cap Value	Los Angeles Capital Mid Cap Core	Wellington Management Mid Cap Core
Total Investment	\$ 1,108	\$ 1,026	\$ 650	\$ 829
Ownership Percentage	0.5%	0.6%	0.5%	0.5%

# INVESTMENT SECTION

## Report on Investment Activity (continued)

### Mid Cap Growth Pools (in thousands)

	Alliance Mid Cap Growth	Putnam Mid Cap Growth	Rainer Mid Cap Growth	UBS Mid Cap Growth	Wellington Management Mid Cap Growth
Total Investment	\$ 603	\$ 241	\$ 606	\$ 543	\$ 564
Ownership Percentage	0.6%	0.6%	0.6%	0.6%	0.6%

### Small Cap Pool

The primary investment objective is to generate a rate of return from investment in common stocks and equivalents that exceeds the S&P 600 Small Cap Index by selecting stocks with market capitalizations greater than \$60 million but less than \$3 billion.

In December of 2006, five new Small Cap managers were hired in the Small Cap pool, and in January of 2007, three managers were terminated for performance reasons. The current System's Small Cap pool is invested with one Growth, one Core, and five Value managers.

The Small Cap pool return for fiscal year 2008 was (12.0)% versus the benchmark's (13.8)%.

At the close of fiscal year 2008, the Small Cap pool represented 1.1% of total investments. This compares to 1.1% for fiscal year 2007. The following summarizes the System's ownership share and composition of the Small Cap Pool at September 30, 2008:

### Small Cap Value Pool (in thousands)

	Donald Smith Small Cap Value	Fisher Small Cap Value	GW Capital Small Cap Value	Northpointe Small Cap Value	Opus Capital Small Cap Value
Total Investment	\$ 506	\$ 582	\$ 407	\$ 421	\$ 127
Ownership Percentage	0.6%	0.5%	0.6%	0.6%	0.6%

### Small Cap Growth and Core Pool (in thousands)

	Champlain Small Cap Core	Pier Capital Small Cap Growth
Total Investment	\$ 484	\$ 583
Ownership Percentage	0.6%	0.6%

# INVESTMENT SECTION

## Report on Investment Activity (continued)

### *S&P 500 Index Pool*

The objective of the enhanced S&P 500 Index pool is to closely match the return performance of its benchmark, the S&P 500 Index, and to use low risk strategies to offset transaction costs and add to performance when possible. The pool generally holds all 500 stocks that make up the Standard & Poor's 500 Index in proportion to their weighting in the index. The following summarizes the sector weightings of the pool as of September 30, 2008:

Information Technology	16.0 %
Financials	15.8
Energy	13.4
Healthcare	13.1
Consumer Staples	12.2
Industrials	11.1
Consumer Discretionary	8.5
Utilities	3.5
Materials	3.4
Telecomm. Services	3.0
<b>Total</b>	<b><u><u>100.0 %</u></u></b>

The S&P 500 Index pool return for the fiscal year was (21.9)% versus the benchmark's (22.0)%.

At the close of fiscal year 2008, the S&P 500 Index pool represented 14.0% of total investments. This compares to 16.2% for fiscal year 2007. The following summarizes the System's 0.5% ownership share of the S&P 500 Index pool at September 30, 2008:

### **S&P 500 Index Pool (in thousands)**

Short Term Pooled Investments	\$ 1,543
Equities	37,691
Futures Contracts	57
Settlement Principal Payable	(2,181)
Settlement Proceeds Receivable	2,120
Accrued Dividends	62
<b>Total</b>	<b><u><u>\$ 39,292</u></u></b>

### *S&P MidCap Index Pool*

The objective of the S&P MidCap Index pool is to closely match the return performance of its benchmark, the S&P MidCap, and use low risk strategies to offset transaction costs and add to performance when possible. The pool invests in equities of mid-size firms.

The S&P MidCap Index pool return for the fiscal year was (15.9)% versus its benchmark's (16.7)%.

# INVESTMENT SECTION

## Report on Investment Activity (continued)

At the close of fiscal year 2008, the S&P MidCap Index pool represented 1.6% of total investments. This compares to 1.7% for fiscal year 2007. The following summarizes the System's 0.5% ownership share of the S&P MidCap Index pool at September 30, 2008:

### S&P MidCap Index Pool (in thousands)

Short Term Pooled Investments	\$	48
Equities		4,267
Settlement Principal Payable		(1)
Settlement Proceeds Receivable		31
Accrued Dividends		5
<b>Total</b>	<b>\$</b>	<b>4,350</b>

### *International Equity Pool - Passive*

The objective of the International Equity Pool - Passive is to match the return performance of the S&P/Citigroup Broad Market Index (BMI) Europe and Pacific Composite (EPAC) adjusted for net dividends. Fifty percent of the benchmark is hedged to the U.S. Dollar and the other half is impacted by foreign currency exchange rate changes. The total passive international return for the fiscal year was (32.9)% compared to the Citigroup BMI-EPAC return of (30.1)%.

Core passive exposure to international equity returns is achieved primarily by investing in a combination of fixed income LIBOR notes, short-term fixed income investments, and equity swap agreements on foreign stock indices in developed markets. Interest on the dedicated notes and short-term fixed income investments is exchanged for international stock returns, and the total notional amount of the swap agreements is invested in the approximate proportions of the S&P/Citigroup Broad Market Index (BMI) Europe and Pacific Composite (EPAC) country weightings in related indices. Use of swap agreements for a core position began in 1993, an American Depository Receipts (ADR) and index-related security portfolio was added in June of 1999 to increase portfolio management flexibility, and a country fund portfolio with targeted capitalization was added in September of 2002 to improve exposure to the smallest companies in the BMI index.

The combination of notes, dedicated short-term investments and equity swap agreements was valued at \$13.2 million on September 30, 2008. That valuation included a net unrealized loss of \$5.7 million. The combined Swap agreements, notes and short-term investments together continue to perform like a stock index fund that realizes all gains and losses on a rolling three year basis. During fiscal year 2008, the pool received realized gains of \$3.1 million on swap equity exposures and dedicated short-term investments. During the same period, \$0.6 million of interest income was earned from international equity swaps.

# INVESTMENT SECTION

## Report on Investment Activity (continued)

At the close of fiscal year 2008, the International Equity – Passive pool represented 6.2% of total investments. This compares to 7.9% for fiscal year 2007. The following summarizes the System's 0.5% ownership share of the International Equity Pool - Passive at September 30, 2008:

### International Equity Pool - Passive (in thousands)

Short Term Pooled Investments	\$	355
Equities		3,837
Fixed Income Securities		17,920
Market Value of Equity Contracts		(4,684)
Accrued Dividends and Interest		75
<b>Total</b>	<b>\$</b>	<b>17,503</b>

### International Equity Pool - Active

The investment objective is to generate a rate of return from investment in common stocks and equivalents that exceeds the S&P Citigroup Broad Market Index (BMI) World Ex-United States. That benchmark is impacted by foreign currency exchange rate changes.

In fiscal year 2005, the System invested in Alliance Bernstein International Style Blend, a mix of Large Cap Growth and Value. During fiscal year 2006, investments were made in the following funds: The Wellington Trust Company International Research Equity Fund and the State Street Global Asset International Alpha Select Pool. Two international managers, SSgA Int'l Small Cap Alpha and GlobeFlex Int'l Small Cap, were selected and funded during April 2007, and added to the three managers already in the pool.

The International Equity Pool – Active return for the fiscal year was (31.6)% versus the benchmark's (30.5)%.

At the close of fiscal year 2008, the International Equity - Active pool represented 2.5% of total investments. This compares to 3.1% for fiscal year 2007. The following summarizes the System's ownership share and composition of the pool at September 30, 2008:

### International Equity Pool - Active (in thousands)

	AllianceBernstein International	Wellington International	SSgA International	Globeflex Int'l Small Cap	SSgA Int'l Small Cap
Total Investment	\$ 2,057	\$ 1,950	\$ 2,356	\$ 276	\$ 343
Ownership Percentage	0.6%	0.6%	0.6%	0.5%	0.5%

### Alternative Investments Pool

The Alternative Investments pool objective is to meet or exceed the benchmark for all private equity investments over long time periods. The benchmark is a blend of the S&P 500 Index plus 300 basis points and the 10 Year Yield plus 300 basis points using ending weights of equity and fixed income holdings within the portfolio.

# INVESTMENT SECTION

## Report on Investment Activity (continued)

Alternative Investments are investments in the private equity market, primarily through limited partnerships. The following summarizes the weightings of the pool as of September 30, 2008:

Buyout Funds	54.0 %
Special Situation Funds	18.1
Venture Capital Funds	9.8
Fund of Funds	6.4
Liquidation Portfolio	6.0
Mezzanine Funds	2.4
Hedge Funds	2.0
Short Term Investments	1.2
Active Small Cap	0.1
<b>Total</b>	<b><u>100.0 %</u></b>

The Alternative Investments pool had a return of 4.9% for the fiscal year ended September 30, 2008, versus the benchmark of (17.4)%.

T. Rowe Price managed the stock distributions of the Alternative Investments beginning in October 2006. The T. Rowe Price return for the fiscal year ending September 30, 2008, was (53.7)%.

At the close of fiscal year 2008, the Alternative Investments pool represented 14.3% of total investments and T. Rowe Price represented 0.02% of total investments. This compares to 10.4% for Alternative and 0.04% for T. Rowe Price for fiscal year 2007. The following summarizes the System's ownership share and composition of the Alternative Investments pool and T. Rowe Price at September 30, 2008:

### Alternative Investments Pool (in thousands)

	Alternative	T. Rowe Price
Short Term Pooled Investments	\$ 491	\$ 8
Equities	39,572	36
<b>Total</b>	<b><u>\$ 40,063</u></b>	<b><u>\$ 44</u></b>
Ownership Percentage	0.4%	0.5%

### Real Estate Pool

The Real Estate pool seeks favorable returns primarily through rental income and appreciation of real estate investments. Real estate investments are typically held through various legal investment entities, such as limited partnerships or limited liability companies, established for the specific purpose of owning, leasing, managing, financing, or developing real estate and real estate related investments. Independent third parties regularly value the real estate investments to establish current market values.

# INVESTMENT SECTION

## Report on Investment Activity (continued)

The Real Estate pool diversifies its holdings by:

- Geography - The pool is diversified geographically with emphasis placed upon domestic (U.S.) real estate investments. The pool may also make foreign real estate investments, which are not expected to exceed 20% of the value of the pool.
- Property Size and Value - The pool diversifies its holdings so that it is not concentrated in a limited number of large real estate investments.
- Property Type - The pool is diversified by type of property as summarized in the table below.

Multi-family apartments	23.5 %
Hotels	21.7
Commercial office buildings	19.8
Retail shopping centers	16.1
Industrial warehouse buildings	8.7
For Sale Housing	4.3
Senior Living	2.7
Land	1.7
Short Term Investments	1.5
<b>Total</b>	<b><u>100.0 %</u></b>

The Real Estate pool generated a return of 6.1% for fiscal year 2008. The benchmark return of 4.0% is the National Council of Real Estate Investment Fiduciaries Property Index less 130 basis points. The Real Estate pool continued to benefit from gains on asset sales during the first half of the fiscal year, but turmoil in the residential housing market and the resulting credit crunch spread into the commercial real estate market during the second half of the fiscal year and has begun to negatively impact commercial real estate values that are coming off from historical highs the past few years.

At the close of fiscal year 2008, the Real Estate pool represented 15.9% of total investments. This compares to 12.9% for fiscal year 2007. The following summarizes the System's 0.8% ownership share of the Real Estate pool at September 30, 2008:

### Real Estate Pool (in thousands)

Short Term Pooled Investments	\$ 680
Equities	43,971
<b>Total</b>	<b><u>\$ 44,651</u></b>

### ***Government Bond Pool***

The objectives are to maximize the rate of return consistent with sound portfolio management principles and to outperform the Lehman Brothers Government Index.

The Government Bond Pool invests in a diversified portfolio of United States' government bonds including, but not limited to: treasuries, agencies, government sponsored enterprises and government guaranteed mortgages. To achieve above average returns, the pool emphasizes those sectors exhibiting the best risk/reward relationship relative to historical norms and the outlook for interest rates.

# INVESTMENT SECTION

## Report on Investment Activity (continued)

During the fiscal year, rates continued to be volatile. Ten-year treasuries started the year at 4.5%, rose to 4.7%, then declined to 3.3% and ended at 3.9%. During the year, the curve declined through its entirety, though rates from three months to ten years showed a steeper decline.

For the fiscal year ending September 30, 2008, the Government Bond pool returned 5.7% which underperformed the 7.9% return of the Lehman Brothers Government Index.

The following summarizes the security type breakdown of the pool as of September 30, 2008:

GNMA	38.4 %
U.S. Agency	37.4
U.S. Guaranteed	19.5
Short Term Investments/Accruals	4.7
<b>Total</b>	<b><u>100.0 %</u></b>

At the close of fiscal year 2008, the Government Bond pool represented 7.5% of total investments. This compares to 7.9% for fiscal year 2007. The following summarizes the System's 0.6% ownership share of the Government Bond pool at September 30, 2008:

### Government Bond Pool (in thousands)

Short Term Pooled Investments	\$ 291
Fixed Income Securities	20,170
Settlement Proceeds Receivable	533
Accrued Interest	172
<b>Total</b>	<b><u>\$ 21,166</u></b>

### *Treasury Inflation Protected Securities Pool*

A Treasury Inflation Protected Securities (TIPS) Pool was established in January 2007. Transfer of TIPS holdings in the Government Bond Pool provided the initial funding for the TIPS pool.

The TIPS pool had a return of 17.6% for the fiscal year ended September 30, 2008, versus the benchmark of 6.2%. During the year, bonds were sold when prices yielded a negative real rate of return.

At the close of fiscal year 2008, the Treasury Inflation Protected Securities pool represented 0.02% of total investments. This compares to 2.6% for fiscal year 2007. The following summarizes the System's 2.8% ownership share of the TIPS pool at September 30, 2008:

### TIPS Pool (in thousands)

Short Term Pooled Investments	\$ 82
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# INVESTMENT SECTION

## Report on Investment Activity (continued)

### *Corporate Bond Pool*

The objectives are to maximize the rate of return consistent with sound portfolio management principles and to outperform the Lehman Brothers Credit Index.

The Corporate Bond Pool invests in a diversified portfolio of investment grade corporate issues. Such issues are rated in the top four categories by nationally recognized rating agencies. Non-rated issues may be acceptable if they are determined to be of comparable quality. To achieve above average returns, the pool emphasizes those sectors exhibiting the best risk/reward ratio relative to historical norms and the outlook for interest rates.

For the fiscal year ending September 30, 2008, the Corporate Bond pool returned 3.0% compared to the (4.8)% return of the Lehman Brothers Credit Index. The pool's performance improved as the year progressed due to the decline in rates later in the year.

The following summarizes the security type breakdown of the pool as of September 30, 2008:

Healthcare	18.2 %
Financials	16.5
Consumer Staples	13.8
Industrials	12.4
Utilities	12.2
Consumer Discretionary	9.5
Materials	6.4
Short Term Investments/Accruals	3.6
Energy	3.4
Information Technology	3.0
Other	1.0
<b>Total</b>	<b><u>100.0 %</u></b>

At the close of fiscal year 2008, the Corporate Bond pool represented 5.4% of total investments. This compares to 4.3% for fiscal year 2007. The following summarizes the System's 0.4% ownership share of the Corporate Bond pool at September 30, 2008:

### **Corporate Bond Pool (in thousands)**

Short Term Pooled Investments	\$ 99
Fixed Income Securities	14,487
Settlement Proceeds Receivable	236
Accrued Interest	201
<b>Total</b>	<b><u>\$ 15,023</u></b>

### *Fixed Income Core Pools*

Five Fixed Income Core managers were selected in fiscal year 2006, beginning March 31, 2006. Their objective is to generate a rate of return exceeding the Lehman Aggregate Index net of fees.

# INVESTMENT SECTION

## Report on Investment Activity (continued)

Delaware Investments, Dodge & Cox, Dupont Capital Management, Pyramis Global Advisors, and Metropolitan West Asset Management were the firms hired.

The Fixed Income Core pools combined rate of return for the fiscal year was 1.7% versus the benchmark's 3.7%.

At the close of fiscal year 2008, the Fixed Income Core pools represented 1.8% of total investments. This compares to 1.5% for fiscal year 2007. The following summarizes the System's ownership share and composition of the five Fixed Income Core pools at September 30, 2008:

### Fixed Income Core Pools (in thousands)

	Delaware Fixed Income Core	Dodge & Cox Fixed Income Core	Dupont Fixed Income Core	Pyramis Fixed Income Core	Metro West Fixed Income Core
Total Investment	\$ 615	\$ 1,070	\$ 797	\$ 1,525	\$ 1,095
Ownership Percentage	0.6%	0.6%	0.6%	0.6%	0.6%

### Fixed Income Corporate Manager Pools

Four Fixed Income Corporate Managers were selected and commenced management on September 15, 2006, with an objective of exceeding the return of the Lehman Credit Index net of fees.

The four managers hired were Alliance Bernstein, Prudential Financial, Western Asset, and Taplin, Canida & Habacht.

The Fixed Income Corporate Manager pools combined rate of return for the fiscal year was (7.4)% versus the benchmark's (4.8)%.

At the close of fiscal year 2008, the Fixed Income Corporate Manager pools represented 1.4% of total investments. This compares to 1.2% for fiscal year 2007. The following summarizes the System's ownership share and composition of the four Fixed Income Corporate Manager pools at September 30, 2008:

### Fixed Income Corporate Manager Pools (in thousands)

	Alliance Bernstein Corporate	Prudential Financial Corporate	Western Asset Corporate	Taplin, Canida & Habacht Corporate
Total Investment	\$ 850	\$ 1,325	\$ 808	\$ 792
Ownership Percentage	0.6%	0.6%	0.6%	0.6%

# INVESTMENT SECTION

## Report on Investment Activity (continued)

### ***CMBS Investment Pool***

In May 2008, the System received approval for an investment in a core Commercial Mortgage Backed Securities (CMBS) Investment Pool. This pool was developed in conjunction with Principal Real Estate Investors (PREI), an SEC registered Real Estate Advisory firm located in Des Moines, Iowa. The overall investment will be operated on a separate account basis with PREI providing investment selection, ongoing servicing and reporting. The mandate will allow PREI to purchase and trade up and down the “A” tranche capital structure to achieve the best risk adjusted return trade off. The pool places certain percentage limitations on how much may be invested in each of the “A” tranches from AAA to AA-.

The CMBS Investment pool return from inception to fiscal year end was (16.3)%.

At the close of fiscal year 2008, the CMBS Investment pool represented 0.2% of total investments. The following summarizes the System's 0.5% ownership share of the CMBS Investment pool at September 30, 2008:

#### **CMBS Investment Pool (in thousands)**

Total Investment	\$	626
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### ***Short Term Investment Pool***

The objective of the Short Term Investment pool is to closely match the return performance of its benchmark, the 30 day Treasury bill. The Short Term Investment pool return for the fiscal year was (2.6)% versus the benchmark's 2.2%.

Potential areas of investment are:

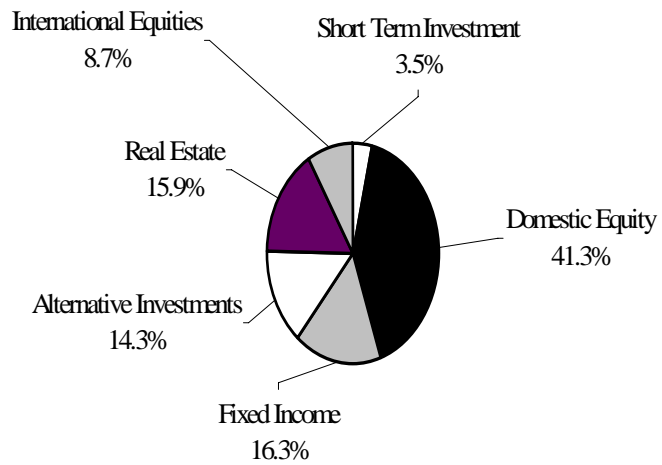
- Obligations of the United States or its agencies.
- Bankers' acceptances, commercial accounts, certificates of deposit or depository receipts.
- Repurchase agreements for the purchase of securities issued by the U.S. government or its agencies.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two national rating services as determined by the State Treasurer.

As of September 30, 2008, the Short Term Investment pool was 100% invested in commercial paper because of its advantages in yield and flexibility in maturities.

At the close of fiscal year 2008, the Short Term Investment pool represented 3.5% of total investments. This compares to 2.0% for fiscal year 2007. The System's ownership share of the Short Term Investment pool at September 30, 2008, was \$9,858,746 composed of fixed income securities and equity in common cash.

# INVESTMENT SECTION

## Asset Allocation – Security Type Only



# INVESTMENT SECTION

## Investment Results for the Period Ending September 30, 2008

Investment Category	Current Year	Annualized Rate of Return <sup>1</sup>		
		3 Years	5 Years	10 Years
Total Portfolio	(11.7) %	5.2 %	7.8 %	5.9 %
Total Domestic Equity	(21.6)	0.5	5.2	3.7
S&P 1500 Index	(21.3)	0.4	5.6	3.8
Large Cap Core Equity Pool	(22.3)			
Large Cap Value Pool	(23.7)	0.2	6.2	
Large Cap Growth Pool	(21.2)	0.4	3.2	
Mid Cap Pool	(20.5)	1.5		
Small Cap Pool	(12.0)	3.8	8.0	
S&P 500 Index Pool	(21.9)	0.3	5.2	
S&P MidCap Index Pool	(15.9)	2.2	9.0	
International Equity Pool - Passive	(32.9)	(1.6)	7.7	4.6
S&P Citigroup BMI - EPAC 50/50	(30.1)	(0.2)	9.0	5.2
International Equity Pool - Active	(31.6)	1.2		
Alternative Investments Pool	4.9	20.1	20.9	11.2
Alternative Blended Benchmark <sup>2</sup>	(17.4)	3.9	8.7	6.6
T. Rowe Price (Stock Distributions)	(53.7)			
Real Estate Pool	6.1	15.0	13.5	11.5
NCREIF Property Blended Index <sup>3</sup>	4.0	11.9	13.1	10.9
Total Fixed Income	3.9	4.6	4.0	5.1
Lehman Brothers Government/Credit	2.4	3.6	3.3	5.0
Government Bond Pool	5.7	5.3	4.5	
Corporate Bond Pool	3.0	4.0	3.6	
Fixed Income Core Pool	1.7			
Fixed Income Managers Pool	(7.4)			
Treasury Inflation Protected Securities	17.6			
Short Term Investment Pool	(2.6)	2.5	2.2	3.1
30 Day Treasury Bill	2.2	3.8	3.0	3.2

1 Calculations used a time-weighted rate of return based on the market rate of return in accordance with industry standards.

Excludes income and investment gains / losses from securities lending.

2 As of 1/1/07, index is blend of S&P 500 plus 300 bps and 10 year yield plus 300 bps based on ending weights.

History prior to 1/1/07 is S&P500 plus 300 bps.

3 As of 10/1/05, index is NCREIF less 130 bp. History prior to 10/1/05 reflects NCREIF less 75 bp.

# INVESTMENT SECTION

## Largest Assets Held

### **Largest Stock Holdings (By Market Value)\* September 30, 2008**

<b>Rank</b>	<b>Shares</b>	<b>Stocks</b>	<b>Market Value</b>
1	47,732	SPDR Trust	\$ 5,536,379
2	131,013	Microsoft Corporation	3,496,746
3	42,226	Exxon Mobil Corporation	3,279,283
4	39,477	Johnson and Johnson	2,734,984
5	84,551	General Electric Corporation	2,156,039
6	102,046	Pfizer Inc	1,881,736
7	80,167	Cisco Systems Inc	1,808,558
8	21,622	Chevron Corporation	1,783,391
9	3,656	Google Inc	1,464,361
10	66,719	Oracle Corporation	1,355,068

### **Largest Bond Holdings (By Market Value)\* September 30, 2008**

<b>Rank</b>	<b>Par Amount</b>	<b>Description</b>	<b>Market Value</b>
1	\$ 1,205,027	General Electric Cap Corp 2.97438% FRN Due 2-15-2017	\$ 1,096,156
2	1,003,468	Berkshire Hathaway Fin 5.11875% FRN Due 1-11-2011	1,002,141
3	752,601	John Deere Capital Corp 3.26063% FRN Due 2-26-2010	752,431
4	752,601	American Honda Finance 3.01% FRN Due 11-20-2009	749,485
5	752,601	JP Morgan Chase & Co 3.70375% FRN Due 9-21-2012	746,622
6	752,601	Vulcan Materials 4.06875% FRN Due 12-15-2010	745,586
7	752,601	Citigroup Funding Inc 4.30875% FRN Due 10-22-2009	720,254
8	576,994	American Honda Finance 3.265% FRN Due 6-07-2010	575,904
9	501,734	John Deere Capital Corp 5.2025% FRN Due 1-18-2011	501,612
10	501,734	Barclays Bank PLC 5.13875% FRN Due 1-11-2011	501,450

Largest Bond Holdings are exclusive of securities lending collateral.

\* A complete list of holdings is available from the Michigan Department of Treasury.

The System's investments are commingled in various pooled accounts. Amounts, par value and number of shares represents the System's pro-rata share based on its ownership of the investment pools.

# INVESTMENT SECTION

## Schedule of Investment Fees

The State Treasurer is the investment fiduciary and custodian of the System's funds pursuant to State law. Outside advisors are utilized to augment the State Treasurer's internal staff. Only 37.22% of the total investment portfolio is managed by fully discretionary outside advisors. The Michigan Department of Treasury's cost of operations applicable to the System for the fiscal year amounted to \$67 thousand or three and eight-tenths basis points (.038)% of the market value of the Assets under Management by the State Treasurer.

Act 380 of the Public Acts of 1965 created an Investment Advisory Committee (Committee) comprised of the directors of the Department of Labor and Economic Growth and the Department of Management and Budget, or their duly authorized representatives, and three public members appointed by the Governor with the advice and consent of the Senate. The public members serve without pay, but may be paid actual and necessary travel and other expenses. The Committee meets quarterly to review investments, goals and objectives and may submit recommendations to the State Treasurer. The Committee may also, by a majority vote, direct the State Treasurer to dispose of any holding which, in the Committee's judgment, is not suitable for the fund involved, and may by unanimous vote direct the State Treasurer to make specific investments.

### Investment Managers' Fees:

	Assets under Management (in thousands)	Fees (in thousands)	Basis Points *
State Treasurer	\$ 176,304	\$ 67	3.8
Outside Advisors for			
Fixed Income	9,504	17	17.9
Mid Cap Equity	6,168	44	71.3
Small Cap Equity	3,110	25	81.3
International Equity	10,663	55	51.4
Equity	1,272	4	35.0
Alternative	39,572	370	93.4
Real Estate	34,243	88	25.8
<b>Total</b>	<b>\$ 280,836</b>	<b>\$ 670</b>	

### Other Investment Services Fees:

Assets in Custody	\$ 270,978	\$ 14
Securities on Loan	43,290	74

\* Outside Advisors Fees are netted against the income for Fixed Income, Equity, Small Cap Equity, Mid Cap Equity, and International Equity. For Alternative Investment partnership agreements that define the management fees, the asset management fees range from 75 basis points on remaining assets under management to 250 basis points of the committed capital. For Real Estate, the asset management fees range from 50 to 175 basis points. Alternative and Real Estate fees, in most cases, are netted against income.

# INVESTMENT SECTION

## Schedule of Investment Commissions

Fiscal Year Ended September 30, 2008							
	Actual Commissions Paid <sup>1</sup>	Actual Number of Shares Traded <sup>1</sup>	Average Commission Per Share	Estimated Trade Costs Per Share	Estimated Research Costs Per Share	Estimated Trade Costs	Estimated Research Costs
<b>Investment Brokerage Firms:</b>							
Banc of America Securities LLC	\$ 2,168	72,280	\$ 0.03	\$ 0.01	\$ 0.02	\$ 723	\$ 1,446
Bear, Stearns & Co Inc.	5,006	269,322	0.02	0.01	0.01	2,693	2,693
Broadcort Capital	453	15,101	0.03	0.01	0.02	151	302
Cantor Fitzgerald & Co.	1,720	86,172	0.02	0.01	0.01	862	862
Citigroup Global Markets Inc.	8,270	409,484	0.02	0.01	0.01	4,095	4,095
Cowen & Co., LLC	2,326	77,542	0.03	0.01	0.02	775	1,551
Credit Suisse Securities LLC	4,706	194,801	0.02	0.01	0.01	1,948	1,948
Deutsche Bank - Alex Brown	11	268	0.04	0.01	0.03	3	8
Deutsche Bank Securities Inc.	1,287	44,617	0.03	0.01	0.02	446	892
Goldman, Sachs & Co	4,054	177,833	0.02	0.01	0.01	1,778	1,778
The Griswold Company, Incorporated	2,934	150,291	0.02	0.01	0.01	1,503	1,503
ISI Capital LLC	2,475	82,482	0.03	0.01	0.02	825	1,650
J.P.Morgan Securities Inc.	3,404	114,045	0.03	0.01	0.02	1,141	2,281
Ladenburg Thalman	384	12,797	0.03	0.01	0.02	128	256
Leerink Swann & Company	3	72	0.04	0.01	0.03	1	2
Lehman Brothers Inc.	2,804	95,197	0.03	0.01	0.02	952	1,904
Liquidnet Inc.	1	41	0.02	0.01	0.01	-	-
Merrill Lynch, Pierce, Fenner & Smith, Incorporated	5,395	184,833	0.03	0.01	0.02	1,848	3,697
Mischler Financial Group, Inc.	385	12,841	0.03	0.01	0.02	129	257
Morgan Stanley & Co. Incorporated	1,476	57,526	0.03	0.01	0.02	575	1,150
OT LLC	559	18,631	0.03	0.01	0.02	186	373
Pink, Ziegler & Company	391	13,028	0.03	0.01	0.02	130	261
Sanford C. Bernstein & Co., LLC	5,181	176,616	0.03	0.01	0.02	1,766	3,532
Stanford Group Co.	294	11,513	0.03	0.01	0.02	115	230
Thomas Weisel Partners LLC	447	11,339	0.04	0.01	0.03	113	340
UBS Securities LLC	2,863	95,470	0.03	0.01	0.02	955	1,909
Wayne Company	534	17,807	0.03	0.01	0.02	178	356
Weeden & Co. L.P.	2,271	229,871	0.01	0.01	-	2,299	-
Total	\$ 61,802	2,631,820	\$ 0.03 <sup>2</sup>	\$ 0.01	\$ 0.02	\$ 26,318	\$ 35,276

<sup>1</sup> Commissions are included in purchase and sale prices of investments. The commissions and shares represent the System's pro-rata share based on ownership of commission and share transactions in the investment pools.

<sup>2</sup> The average commission per share for all brokerage firms.



# INVESTMENT SECTION

## Investment Summary

Fiscal Year Ended September 30, 2008

	<u>Market Value<sup>1</sup></u>	<u>Percent of Total Market Value</u>	<u>Investment &amp; Interest Income<sup>2</sup></u>	<u>Percent of Total Investment &amp; Interest Income</u>
Fixed Income Pools	\$ 45,775,439	16.3%	\$ 2,626,011	(7.1)%
Domestic Equity Pools	115,958,889	41.3%	(32,700,787)	87.9%
Real Estate Pool	44,651,430	15.9%	2,743,147	(7.4)%
Alternative Investment Pools	40,107,303	14.3%	2,109,368	(5.6)%
International Equities Pools	24,484,470	8.7%	(11,936,998)	32.1%
Short Term Investment Pools	<u>9,858,746</u>	<u>3.5%</u>	<u>(23,499)</u>	<u>0.1%</u>
<b>Total</b>	<u><u>\$ 280,836,277</u></u>	<u><u>100.0%</u></u>	<u><u>\$ (37,182,758)</u></u>	<u><u>100.0%</u></u>

1 Market value excludes \$36,415,878 in securities lending collateral for fiscal year 2008.

2 Total Investment & Interest Income excludes net security lending income of \$345,478 and unrealized loss of \$11,102,873 for securities lending collateral.

# INVESTMENT SECTION

## Investment Summary

Fiscal Year Ended September 30, 2007

	<u>Market Value<sup>1</sup></u>	<u>Percent of Total Market Value</u>	<u>Investment &amp; Interest Income<sup>2</sup></u>	<u>Percent of Total Investment &amp; Interest Income</u>
Fixed Income Pools	\$ 58,778,317	17.5%	\$ 3,175,488	6.4%
Domestic Equity Pools	154,914,158	46.2%	23,149,307	46.3%
Real Estate Pool	43,342,679	12.9%	7,246,437	14.5%
Alternative Investment Pools	35,015,376	10.4%	8,820,422	17.6%
International Equities Pools	36,917,199	11.0%	7,241,505	14.5%
Short Term Investment Pools	<u>6,730,219</u>	<u>2.0%</u>	<u>351,225</u>	<u>0.7%</u>
<b>Total</b>	<u><u>\$ 335,697,948</u></u>	<u><u>100.0%</u></u>	<u><u>\$ 49,984,384</u></u>	<u><u>100.0%</u></u>

1 Market value excludes \$76,704,396 in securities lending collateral for fiscal year 2007.

2 Total Investment & Interest Income excludes net security lending income of \$137,417.

# ACTUARIAL SECTION

Actuary's Certification  
Summary of Actuarial Assumptions and Methods  
Schedule of Active Member Valuation Data  
Schedule of Changes in Retirement Rolls  
Prioritized Solvency Test  
Analysis of System Experience  
Summary of Plan Provisions

# ACTUARIAL SECTION

## Actuary's Certification

GRS

Gabriel Roeder Smith & Company  
Consultants & Actuaries

One Towne Square  
Suite 800  
Southfield, MI 48076-3723

248.799.9000 phone  
248.799.9020 fax  
www.gabrielroeder.com

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November 26, 2008

Ms. Lisa Webb Sharpe, Director  
Department of Management and Budget  
and  
The Retirement Board  
Michigan Judges' Retirement System  
P.O. Box 30171  
Lansing, Michigan 48909

Ladies and Gentlemen:

The basic financial objective of the Michigan Judges' Retirement System (JRS) is to establish and receive contributions which when combined with present assets and future investment return will be sufficient to meet the financial obligations of the system to present and future benefit recipients.

The financial objective is addressed within the actuarial valuation. The valuation process develops employer contributions that are sufficient to fund the plan's normal cost (i.e., the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund any unfunded accrued liabilities over a reasonable period. The most recent valuation was completed based upon population data, asset data, and plan provisions as of September 30, 2008.

The Retirement System provides the actuary with data for the actuarial valuation. The actuary relies on the data after reviewing it for internal and year to year consistency. The actuary summarizes and tabulates population data in order to analyze long term trends. The plan's external auditor also audits the actuarial data annually.

Annual actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rate of investment return and payroll growth, eligibility for the various classes of benefits and longevity among retired lives. These assumptions are adopted by the Board and the Department after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the disclosure requirements of GASB Statement Nos. 25 and 43. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed.

## Actuary's Certification (continued)

Ms. Lisa Webb Sharpe  
November 26, 2008  
Page 2

Our firm provided the following supporting schedules for use in the Comprehensive Annual Financial Report:

### Financial Section

- Note 1 Table of System's Membership
- Note 3 - Summary of Actuarial Assumptions
- Schedules of Funding Progress
- Schedules of Employer Contributions (Annual Required Contribution)

### Actuarial Section

- Summary of Actuarial Assumptions and Methods
- Percent of Eligible Active Members Retiring Within Next Year
- Separation from Active Employment Before Age and Service Retirement and Individual Pay Increase Assumptions
- Schedule of Active Member Valuation Data
- Schedule of Changes in the Retirement Rolls
- Prioritized Solvency Test
- Analysis of System Experience

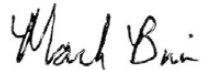
### Statistical Section

- Schedule of Retired Members by Type of Pension Benefit
- Schedule of Retired Members by Type of Health Benefit
- Schedules of Average Benefit Payments – Pension, Health, Dental, and Vision

Although our firm provided supporting schedules in connection with GASB statements numbers 43 and 45, we recommend consultation with legal counsel and the auditors to determine whether Statement 43 applies.

The actuarial valuations of JRS as of September 30, 2008 were performed by qualified actuaries in accordance with standards of practice prescribed by the Actuarial Standards Board and in compliance with applicable state statutes. The undersigned are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. It is our opinion that the calculated employer contribution meets the financial objective of the Retirement System.

Respectfully submitted,



Mark Buis, FSA, EA, MAAA



Alan Sonnanstine, ASA, MAAA

Gabriel Roeder Smith & Company

# **ACTUARIAL SECTION**

## **Summary of Actuarial Assumptions and Methods**

1. The investment return rate used in the valuations was 8% per year net of expenses, compounded annually. This rate of return is not the assumed real rate of return. The real rate of return is the rate of investment return in excess of the inflation rate. Considering other financial assumptions, this 8% investment return rate translates to an assumed long-term real rate of return of 4.5%. Adopted 2004.
2. The healthy life mortality table used in evaluating allowances to be paid was the 1994 Group Annuity Mortality Table. Adopted 2004.
3. Sample probabilities of retirement with an age and service allowance are shown in Schedule 1 on the next page. Adopted 2004.
4. Sample probabilities of withdrawal from service and disability, together with individual pay increase assumptions, are shown in Schedule 2 on the next page. Adopted 2004.
5. The active member population is closed to new hires. This will result in a gradual reduction in the total active member payroll over time. Adopted 1997.
6. An individual entry age actuarial cost method of valuation was used in determining age and service and deferred retirement actuarial liabilities and normal cost. Adopted 1975. Unfunded actuarial accrued liabilities, including actuarial gains and losses, are financed over a declining 40-year period beginning October 1, 1996. Adopted or re-adopted 1996.
7. The Department of Management and Budget approved the use of market value of assets as of September 30, 1997, for actuarial valuation purposes. For investment gains or losses that occur after that date, a 5-year smoothing technique will be used. Specifically, the excess (shortfall) of actual investment income (including interest, dividends, realized and unrealized gains or losses) over the imputed income at the valuation interest rate is considered the gain (loss), which is spread over five years. Adopted 1997.
8. The data about persons now covered and about present assets was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.
9. The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (MAAA). The assumptions used in the actuarial valuations were adopted by the System's Board and the Department of Management and Budget after consulting with the actuary.
10. A 5-year experience investigation, covering the period from September 30, 1997, through September 30, 2002, was completed in April 2004. The purpose of the study was to analyze the actual experience of the System versus that anticipated by the actuarial assumptions then in use. The combined effect of the recommended changes in assumptions was a decrease in actuarial accrued liabilities of approximately 1.3% and a decrease in computed employer contributions to zero. Adopted 2004.
11. Gabriel Roeder Smith & Co. was awarded the actuarial and consulting services contract beginning October 4, 2006.
12. Seventy-five percent of male and sixty percent of female future retirees are assumed to elect coverage for 1 or more dependents. Adopted 2007.
13. Seventy-five percent of male retirees and sixty percent of female retirees are assumed to have coverage continuing after death. Adopted 2007.
14. Zero percent of eligible participants are assumed to opt out of the retiree health plan. Adopted 2007.

# ACTUARIAL SECTION

## Summary of Actuarial Assumptions and Methods (continued)

### SCHEDULE 1

#### Percent of Eligible Active Members Retiring Within Next Year

<u>Retirement Ages</u>		
55-59	6	%
60	10	
61	8	
62	10	
63	8	
64	8	
65	18	
66-68	8	
69	12	
70	25	
71	30	
72	35	
73	40	
74	50	
75	100	

### SCHEDULE 2

#### Separation From Active Employment Before Age & Service Retirement & Individual Pay Increase Assumptions

<u>Sample Ages</u>	<u>Percent of Active Members Withdrawing Within Next Year (Men and Women)</u>	<u>Percent of Active Members Becoming Disabled Within Next Year</u>	<u>Percent Increase In Pay During Next Year</u>
20		0.00 %	4.0 %
25		0.00	4.0
30	0.75 %	0.00	4.0
35	0.75	0.01	4.0
40	0.75	0.03	4.0
45	0.75	0.06	4.0
50	0.75	0.09	4.0
55	0.75	0.12	4.0
60	0.75	0.18	4.0

# ACTUARIAL SECTION

## Actuarial Valuation Data

### Schedule of Active Member Valuation Data

Valuation Date Sept. 30	Inactive Number	Active					
		Number	Reported Annual Payroll*	Average Annual Pay	% Increase	Average Age	Average Service
1999	22	573	\$ 49,626,160	\$ 86,608	6.3 %	54.8	13.5
2000	17	399	37,022,723	92,789	7.1	54.0	11.0
2001	15	380	42,543,811	111,957	20.7	54.4	11.7
2002	16	367	42,441,201	115,644	3.3	55.3	12.4
2003	13	337	38,900,163	115,431	(0.2)	55.4	13.2
2004	11	325	37,453,179	115,241	(0.2)	56.1	13.6
2005	18	302	34,935,846	115,682	0.4	57.0	14.8
2006	16	291	33,066,573	113,631	(1.8)	57.8	15.9
2007	16	260	29,716,615	114,295	0.6	58.4	16.5
2008	13	257	29,475,726	114,692	0.3	59.4	17.5

\* Prior to 2006, reported annual payroll in this schedule is 2% higher than the actual data reported to the actuary.

### Schedule of Changes in the Retirement Rolls \*

Year Ended Sept. 30	Added to Rolls		Removed from Rolls		Rolls--End of Year		% Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances		
1999	35	\$ 1,182,957	18	\$ 514,936	531	\$ 15,011,546	4.7 %	\$ 28,270
2000	16	656,659	12	449,123	535	15,219,082	1.4	28,447
2001	30	1,027,902	19	399,313	546	16,027,671	5.3	29,355
2002	8	310,381	19	659,722	535	15,678,330	(2.2)	29,305
2003	27	1,099,372	11	520,658	551	17,144,956	9.4	31,116
2004	13	836,992	15	562,582	549	17,572,770	2.5	32,009
2005	16	816,849	13	387,731	552	18,001,888	2.4	32,612
2006	19	827,419	38	877,683	533	17,951,624	(0.3)	33,680
2007	38	1,797,377	29	657,528	542	19,091,473	6.3	35,224
2008	25	879,299	27	927,730	540	19,043,042	(0.3)	35,265

\* Restated based on more complete information.



## Prioritized Solvency Test

The System's funding objective is to meet long-term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will pay all promised benefits when due, the ultimate test of financial soundness. Testing for level contribution rates is the long-term solvency test.

A prioritized solvency test is another means of checking a System's progress under its funding program. In a short condition test, the System's present assets (cash and investments) are compared with: (1) active member contributions on deposit; (2) the liabilities for future benefits to present retired lives; and (3) the liabilities for service already rendered by active and inactive members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) are normally partially covered by the remainder of present assets. Generally, if the System has been using level-cost financing, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is not necessarily a by-product of level percent of payroll funding methods.

The schedule below illustrates the history of the liabilities of the System and is indicative of the System's policy of following the discipline of level percent of payroll financing.

(\$ in thousands)

Valuation Date	Actuarial Accrued Liability (AAL)			Valuation Assets	Portion of AAL Covered by Assets			
	(1)	(2)	(3)					
	Active Member Contributions	Retirants and Beneficiaries	Active and Inactive Members (Employer Financed Portion)		(1)	(2)	(3)	(4) <sup>1</sup>
Sept. 30								
1999	\$ 43,047	\$ 121,856	\$ 78,600	\$ 320,869	100 %	100 %	198.4 %	131.8 %
2000	28,812	120,480	54,933	274,843	100	100	228.6	134.6
2001	29,469	125,097	70,171	290,998	100	100	194.4	129.5
2002	33,457	120,456	75,309	291,730	100	100	183.0	127.3
2003	34,355	131,719	69,167	292,258	100	100	182.4	124.2
2004 <sup>2</sup>	37,089	138,141	61,219	286,873	100	100	182.4	121.3
2005	38,695	142,689	61,987	278,423	100	100	156.5	114.4
2006	43,094	142,384	58,230	282,822	100	100	167.2	116.0
2007	42,250	151,691	53,142	301,047	100	100	201.5	121.8
2008	48,109	149,608	49,293	303,746	100	100	215.1	123.0

<sup>1</sup> Percents funded on a total valuation asset and total actuarial accrued liability basis.

<sup>2</sup> Revised actuarial assumptions.

# ACTUARIAL SECTION

## Analysis of System Experience

### **Gains/(Losses) in Accrued Liabilities During Year Ended September 30, 2008 Resulting from Differences Between Assumed Experience & Actual Experience**

<b><u>Type of Activity</u></b>	<b><u>Gain/(Loss)</u></b>
1. <b>Retirements (including Disability Retirement).</b> If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pays, a loss.	\$ 3,304,466
2. <b>Withdrawal From Employment</b> (including death-in-service). If more liabilities are released by withdrawals and deaths than assumed, there is a gain. If smaller releases, a loss.	(219,108)
3. <b>Pay Increases.</b> If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	3,169,468
4. <b>Investment Income.</b> If there is greater investment income than assumed, there is a gain. If less income, a loss.	(3,291,696)
5. <b>Death After Retirement.</b> If retirants live longer than assumed, there is a loss. If not as long, a gain.	(1,409,004)
6. <b>Rehires.</b> Rehires into the System will generally result in an actuarial loss.	(380,460)
7. <b>Other.</b> Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	<u>571,155</u>
8. <b>Composite Gain (or Loss) During Year</b>	<u><u>\$ 1,744,821</u></u>

## **Summary of Plan Provisions**

Our actuarial valuation of the System as of September 30, 2008, is based on the present provisions of the Judges' Retirement Act (Public Act No. 234 of 1992, as amended).

### ***Regular Retirement***

Eligibility - Age 60 with 8 years credited service; or age 55 with 18 years credited service, or 25 years with no age requirement.

Annual Amount - If less than 12 years of credited service, 3% of final annual compensation times years of credited service; for 12 or more years of credited service, 50% of final annual compensation plus 2.5% of such compensation for each year of credited service in excess of 12 years to a maximum of 60%. Former System members receive 3% of final annual compensation times years of credited service to a maximum of the greater of 40% of final annual compensation or \$15,000, but not to exceed 66.67% of final annual compensation when added to a local retirement system benefit; or 3.5% of final annual compensation times years of credited service to a maximum of 66.67% of final annual compensation if elected.

Final Annual Compensation - Annual state salary at time of retirement plus state salary standardization, if any. For former Probate System members, final annual compensation is member's certified salary at time of retirement. For 36<sup>th</sup> District Court judges, final annual compensation is total state and district control unit salary at time of retirement. For Probate Court judges serving in a single county of less than 15,000 population, final annual compensation is total judicial salary at the time of retirement.

### ***Early Retirement (age reduction factor used)***

Eligibility - Age 55 with 12 but less than 18 years credited service.

Annual Amount - Regular retirement benefit, reduced by 0.5% for each month by which the commencement age is less than 60.

### ***Deferred Retirement (vested benefit)***

Eligibility - 8 years of credited service.

Annual Amount - Regular retirement benefit. If less than 12 years of credited service, payable at age 60; if 18 or more years of credited service payable at age 55; if more than 12 but less than 18 years of credited service reduced amount payable at age 55.

### ***Disability Retirement***

Eligibility - 8 years of credited service.

Annual Amount - Regular retirement benefit, based upon member's credited service and final salary at time of disability.

### ***Death Before or After Retirement (Spouse or Dependent Children)***

Eligibility - 8 years of credited service.

Annual Amount - 50% of the member's accrued pension.

# **ACTUARIAL SECTION**

## **Summary of Plan Provisions (continued)**

### ***Post Retirement Cost-of-Living Adjustments***

None, except that judges who were active judges prior to September 8, 1961, (and their survivors) have their benefits adjusted as active judges' salaries change.

### ***Member Contributions***

Non-Trial Judges - 5% of salary (2% for health benefits).

Trial Judges with Full Standardization - 7% of salary.

Trial Judges without Full Standardization - 3.5% of salary.

Probate Judges under 3% Formula - 7% of salary to maximum of \$980.

Probate Judges under 3.5% Formula - 7% of salary (no maximum).

District Court Judges of the Thirty-sixth District - 3.5% of salary.

### ***Defined Contribution Legislation - (Public Act 523 of 1996)***

New employees hired on or after March 31, 1997, become participants in Tier 2 (i.e. a defined contribution plan) rather than Tier 1 (i.e., the above described defined benefit plan).

Active members on March 30, 1997, had an opportunity to irrevocably elect to terminate membership in Tier 1 and become participants in Tier 2. Elections were in writing and submitted between January 2, 1998, and April 30, 1998. Such members became Tier 2 participants on June 1, 1998, and had the actuarial present value of their Tier 1 accrued benefit transferred into Tier 2 by September 30, 1998.

# STATISTICAL SECTION

Schedules of Revenues by Source  
Schedules of Expenses by Type  
Schedules of Changes in Net Assets  
Schedules of Benefits and Refunds by Type  
Schedules of Retired Members by Type of Benefit  
Schedules of Average Benefit Payments  
Schedule of Principal Participating Employers  
Ten Year History of Membership  
Schedule of Participating Employers

# STATISTICAL SECTION

This part of the System's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the System's overall financial health.

## Contents

### *Financial Trends*

These schedules contain trend information to help the reader understand how the System's financial performance and fiscal health has changed over time. The schedules are presented for the last ten fiscal years. Schedules included are:

- Schedule of Pension Plan Revenues by Source
- Schedule of OPEB Plan Revenues by Source
- Schedule of Pension Plan Expenses by Type
- Schedule of OPEB Plan Expenses by Type
- Schedule of Changes in Net Assets – Pension Plan
- Schedule of Changes in Net Assets – OPEB Plan
- Schedule of Pension Benefits and Refunds by Type
- Schedule of OPEB Benefits by Type

### *Operating Information*

These schedules contain contextual information to assist the reader's understanding of how the System's financial information relates to the combination of participating members and the benefits it provides. Schedules are presented for the last ten fiscal years, except where noted. Schedules included are:

- Schedule of Retired Members by Type of Pension Benefit
- Schedule of Retired Members by Type of Other Postemployment Benefit
- Schedule of Average Benefit Payments - Pension
- Schedule of Average Benefit Payments - OPEB
- Schedule of Principal Participating Employers
- Ten Year History of Membership
- Schedule of Participating Employers

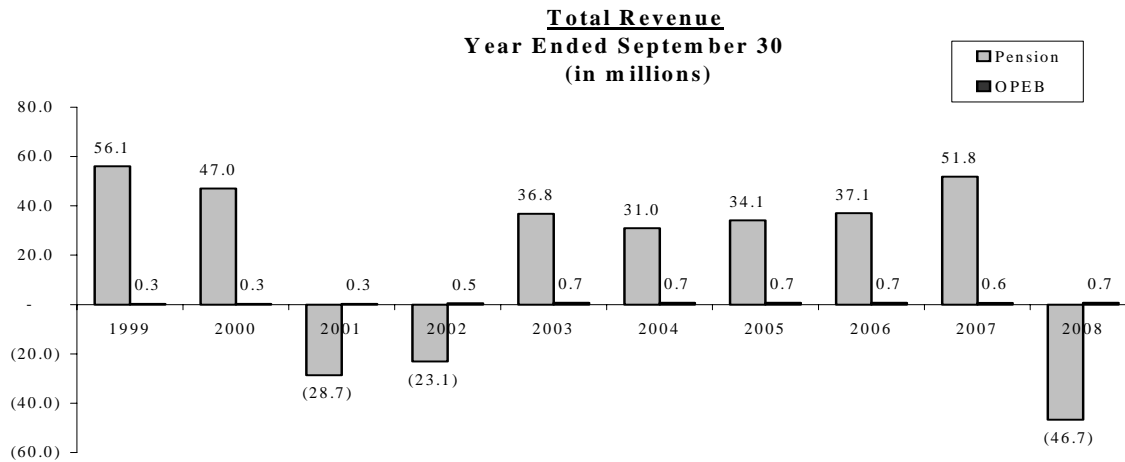
# STATISTICAL SECTION

## Schedule of Pension Plan Revenues by Source Last Ten Years

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions		Net Investment & Other Income	Total
		Dollars	% of Annual Covered Payroll		
1999	\$ 3,019,443	\$ 58,499	0.00 %	\$ 53,008,576	\$ 56,086,518
2000	2,874,966		0.00	44,164,101	47,039,067
2001	2,304,041		0.00	(30,995,562)	(28,691,521)
2002	2,857,224		0.00	(25,998,096)	(23,140,872)
2003	2,288,608		0.00	34,560,288	36,848,896
2004	2,143,714		0.00	28,818,651	30,962,365
2005	2,077,550		0.00	32,011,495	34,089,045
2006	2,017,943		0.00	35,106,967	37,124,910
2007	1,845,878		0.00	49,974,396	51,820,274
2008	1,738,459		0.00	(48,471,966)	(46,733,507)

## Schedule of OPEB Plan Revenues by Source Last Ten Years

Fiscal Year Ended Sept. 30	Member Contributions	Net Investment & Other Income	Total
1999	\$ 297,397		\$ 297,397
2000	324,441		324,441
2001	345,851		345,851
2002	362,987	\$ 100,000	462,987
2003	451,035	265,000	716,035
2004	483,966	215,000	698,966
2005	450,657	215,000	665,657
2006	518,057	215,000	733,057
2007	530,336	115,535	645,871
2008	539,440	144,258	683,698



# STATISTICAL SECTION

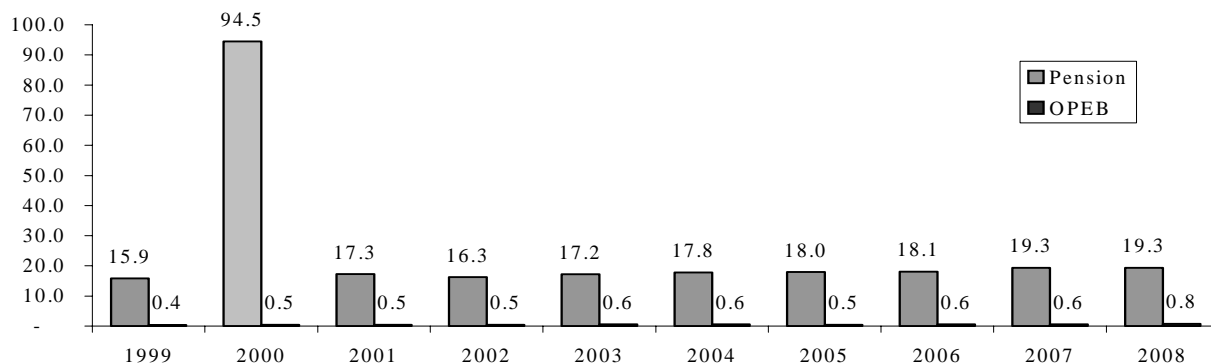
## Schedule of Pension Plan Expenses by Type Last Ten Years

<u>Fiscal Year Ended Sept. 30</u>	<u>Benefit Payments</u>	<u>Refunds and Transfers</u>	<u>Administrative and Other Expenses</u>	<u>Total</u>
1999	\$ 14,832,575	\$ 913,381	\$ 148,116	\$ 15,894,072
2000	15,260,878	78,765,632	517,046	94,543,556
2001	15,793,191	975,633	500,501	17,269,325
2002	15,809,951	52,862	404,983	16,267,796
2003	16,728,017	1,074	500,590	17,229,681
2004	17,540,889	67,792	210,178	17,818,859
2005	17,797,840		167,993	17,965,833
2006	17,952,735		170,023	18,122,758
2007	18,919,433	247,941	181,848	19,349,222
2008	19,180,381		144,188	19,324,569

## Schedule of OPEB Plan Expenses by Type Last Ten Years

<u>Fiscal Year Ended Sept. 30</u>	<u>Benefit Payments</u>	<u>Administrative Expenses</u>	<u>Total</u>
1999	\$ 398,997		\$ 398,997
2000	450,345		450,345
2001	505,459		505,459
2002	519,669		519,669
2003	564,801		564,801
2004	576,043		576,043
2005	510,152		510,152
2006	596,769		596,769
2007	611,246		611,246
2008	789,975	\$ 41,978	831,953

### Total Expenses Year Ended September 30 (in millions)





# STATISTICAL SECTION

## Schedule of Changes in Net Assets - Pension Plan

### Last Ten Years

(in thousands)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Member contributions	\$ 3,019	\$ 2,875	\$ 2,304	\$ 2,857	\$ 2,289	\$ 2,144	\$ 2,078	\$ 2,018	\$ 1,846	\$ 1,738
Employer contributions	58									
Net investment income	53,010	44,164	(30,996)	(25,998)	34,560	28,818	31,977	34,453	49,743	(48,516)
Court fees							34	654	231	44
<b>Total Additions</b>	<u>56,087</u>	<u>47,039</u>	<u>(28,692)</u>	<u>(23,141)</u>	<u>36,849</u>	<u>30,962</u>	<u>34,089</u>	<u>37,125</u>	<u>51,820</u>	<u>(46,734)</u>
Pension benefits	14,833	15,261	15,793	15,810	16,728	17,541	17,798	17,953	18,919	19,180
Refunds of member contributions	913	78,766	976	53	1	67			248	
Administrative expenses	148	517	500	405	501	210	168	170	182	144
<b>Total Deductions</b>	<u>15,894</u>	<u>94,544</u>	<u>17,269</u>	<u>16,268</u>	<u>17,230</u>	<u>17,818</u>	<u>17,966</u>	<u>18,123</u>	<u>19,349</u>	<u>19,324</u>
<b>Changes in net assets</b>	<u>\$ 40,193</u>	<u>\$ (47,505)</u>	<u>\$ (45,961)</u>	<u>\$ (39,409)</u>	<u>\$ 19,619</u>	<u>\$ 13,144</u>	<u>\$ 16,123</u>	<u>\$ 19,002</u>	<u>\$ 32,471</u>	<u>\$ (66,058)</u>

## Schedule of Changes in Net Assets - OPEB Plan

### Last Ten Years

(in thousands)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Member contributions	\$ 297	\$ 324	\$ 346	\$ 363	\$ 451	\$ 484	\$ 451	\$ 518	\$ 530	\$ 539
Net investment income										8
Court fees				100	265	215	215	215	115	115
Transfer from other systems										15
Miscellaneous income									1	7
<b>Total Additions</b>	<u>297</u>	<u>324</u>	<u>346</u>	<u>463</u>	<u>716</u>	<u>699</u>	<u>666</u>	<u>733</u>	<u>646</u>	<u>684</u>
Health care benefits	399	450	505	520	565	576	510	597	611	790
Administrative expenses										42
<b>Total Deductions</b>	<u>399</u>	<u>450</u>	<u>505</u>	<u>520</u>	<u>565</u>	<u>576</u>	<u>510</u>	<u>597</u>	<u>611</u>	<u>832</u>
<b>Changes in net assets</b>	<u>\$ (102)</u>	<u>\$ (126)</u>	<u>\$ (159)</u>	<u>\$ (57)</u>	<u>\$ 151</u>	<u>\$ 123</u>	<u>\$ 156</u>	<u>\$ 136</u>	<u>\$ 35</u>	<u>\$ (148)</u>

# STATISTICAL SECTION

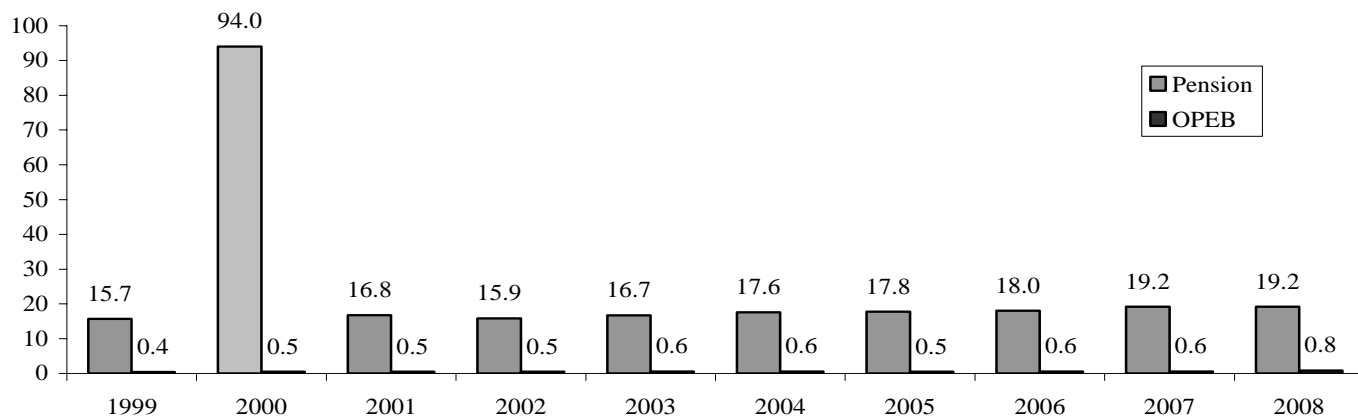
## Schedule of Pension Benefits and Refunds by Type Last Ten Years

Fiscal Year Ended Sept. 30	Regular Benefits	Disability Benefits	Survivor Benefits	Refunds		Transfers	Total
				Employee Contribution	Retired Benefit		
1999	\$ 14,435,420	\$ 397,155				\$ 913,381	\$15,745,956
2000	14,818,706	442,172		\$ 1,854,135		76,911,497	94,026,510
2001	15,352,750	440,441		51,373	\$ 13,581	910,679	16,768,824
2002	15,375,626	434,325		52,862			15,862,813
2003	16,236,804	491,213		1,074			16,729,091
2004	17,011,125	529,764		67,792			17,608,681
2005	17,269,422	528,418					17,797,840
2006	14,611,531	297,408	\$ 3,043,796				17,952,735
2007	14,996,160	260,585	3,662,688	246,389	1,552		19,167,374
2008	15,231,453	233,700	3,715,228				19,180,381

## Schedule of OPEB Benefits by Type Last Ten Years

Fiscal Year Ended Sept. 30	Health Benefits	Dental Benefits	Vision Benefits	Administrative Expenses	Total
1999	\$ 341,384	\$ 49,578	\$ 8,035		\$ 398,997
2000	391,355	50,660	8,330		450,345
2001	435,444	61,978	8,037		505,459
2002	441,453	69,927	8,289		519,669
2003	482,449	73,619	8,733		564,801
2004	489,225	77,691	9,127		576,043
2005	422,261	78,495	9,396		510,152
2006	486,112	98,652	12,005		596,769
2007	500,954	98,160	12,132		611,246
2008	720,335	62,770	6,870	\$ 41,978	831,953

### Total Benefit Expenses Year Ended September 30 (in millions)



# STATISTICAL SECTION

## Schedule of Retired Members by Type of Pension Benefit

September 30, 2008

Amount of Monthly Pension Benefit	Number of Retirees	Type of Retirement *					Selected Option**		
		1	2	3	4	5	Opt 1	Opt 2	Opt 3
\$ 1 - 400	3	1	1	1	-	-	3	-	-
401 - 800	33	7	21	5	-	-	29	4	-
801 - 1,200	48	24	17	3	2	2	39	8	1
1,201 - 1,600	48	19	22	7	-	-	41	6	1
1,601 - 2,000	73	30	33	7	1	2	64	8	1
2,001 - 2,400	32	16	12	2	1	1	19	13	-
2,401 - 2,800	38	25	12	-	-	1	29	8	1
2,801 - 3,200	27	20	5	-	-	2	13	14	-
3,201 - 3,600	36	32	3	1	-	-	24	12	-
3,601 - 4,000	66	58	4	3	-	1	52	13	1
Over 4,000	136	128	3	2	2	1	121	15	-
Totals	540	360	133	31	6	10	434	101	5

### \* Type of Retirement

- 1 - Normal retirement for age & service
- 2 - Survivor payment - normal retirement or early retirement
- 3 - Survivor payment - death in service
- 4 - Non-duty disability retirement (incl. survivors)
- 5 - Survivor payment - disability retirement

### \*\*Selected Option

- Opt 1 - Straight life allowance
- Opt 2 - 100% Survivor option
- Opt 3 - 50% Survivor option

Source: Gabriel Roeder Smith & Co.

# STATISTICAL SECTION

## Schedule of Retired Members by Type of Other Postemployment Benefit September 30, 2008

Amount of Monthly Pension Benefit	Eligible Retirees	Type of Other Postemployment Benefits		
		Health	Dental	Vision
\$ 1 – 400	3	1	-	1
401 – 800	33	4	5	4
801 – 1,200	48	7	12	7
1,201 – 1,600	48	4	9	6
1,601 – 2,000	73	11	13	7
2,001 - 2,400	32	5	10	10
2,401 - 2,800	38	3	10	6
2,801 - 3,200	27	5	5	3
3,201 - 3,600	36	3	11	6
3,601 - 4,000	66	12	23	21
Over 4,000	136	28	48	45
<b>Totals</b>	<b>540</b>	<b>83</b>	<b>146</b>	<b>116</b>

Source: Gabriel Roeder Smith & Co.

# STATISTICAL SECTION

## Schedule of Average Benefit Payments - Pension Last Ten Years

Payment Periods	Credited Service (Years) as of September 30							
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30 +	Total
Period 10/1/98 to 9/30/99:								
Average Monthly Benefit	\$ 908	\$ 1,148	\$ 1,630	\$ 2,522	\$ 2,948	\$ 2,476	\$ 3,409	\$ 2,356
Average Final Average Salary	1,950	55,804	50,535	59,340	65,753	76,643	68,504	68,504
Number of Active Retirants	10	29	113	181	127	52	19	531
Period 10/1/99 to 9/30/00:								
Average Monthly Benefit	\$ 923	\$ 1,240	\$ 1,637	\$ 2,588	\$ 2,990	\$ 2,429	\$ 3,477	\$ 2,371
Average Final Average Salary	1,147	58,188	49,653	58,814	66,470	77,869	68,504	58,893
Number of Active Retirants	17	30	112	184	124	49	19	535
Period 10/1/00 to 9/30/01:								
Average Monthly Benefit	\$ 1,144	\$ 1,365	\$ 1,668	\$ 2,618	\$ 3,080	\$ 2,628	\$ 3,761	\$ 2,446
Average Final Average Salary	7,066	59,526	51,362	60,795	67,803	83,459	73,014	60,618
Number of Active Retirants	23	31	109	188	128	47	20	546
Period 10/1/01 to 9/30/02:								
Average Monthly Benefit	\$ 1,144	\$ 1,363	\$ 1,712	\$ 2,618	\$ 3,015	\$ 2,718	\$ 3,904	\$ 2,442
Average Final Average Salary	7,066	60,075	53,476	62,450	67,578	84,054	76,199	61,683
Number of Active Retirants	23	32	109	180	125	47	19	535
Period 10/1/02 to 9/30/03:								
Average Monthly Benefit	\$ 1,026	\$ 1,251	\$ 1,978	\$ 2,771	\$ 3,217	\$ 2,722	\$ 4,197	\$ 2,593
Average Final Average Salary	813	49,406	48,531	56,406	61,051	58,177	59,739	53,211
Number of Active Retirants	24	31	118	188	121	46	23	551
Period 10/1/03 to 9/30/04:								
Average Monthly Benefit	\$ 1,026	\$ 1,247	\$ 2,016	\$ 2,917	\$ 3,317	\$ 2,940	\$ 3,871	\$ 2,667
Average Final Average Salary	813	49,810	48,982	55,299	61,840	59,355	59,739	53,149
Number of Active Retirants	24	33	118	188	117	46	23	549
Period 10/1/04 to 9/30/05:								
Average Monthly Benefit	\$ 1,057	\$ 1,263	\$ 2,074	\$ 2,984	\$ 3,382	\$ 2,986	\$ 3,850	\$ 2,718
Average Final Average Salary	780	51,605	48,782	53,902	62,131	58,827	59,739	52,634
Number of Active Retirants	25	34	117	193	116	44	23	552
Period 10/1/05 to 9/30/06:								
Average Monthly Benefit	\$ 1,023	\$ 1,411	\$ 2,098	\$ 3,013	\$ 3,364	\$ 2,953	\$ 3,569	\$ 2,807
Average Final Average Salary	3,250	71,249	61,140	69,683	76,983	75,353	92,016	70,441
Number of Active Retirants	6	30	112	193	117	49	26	533
Period 10/1/06 to 9/30/07:								
Average Monthly Benefit	\$ 888	\$ 1,467	\$ 2,126	\$ 3,228	\$ 3,440	\$ 3,064	\$ 3,569	\$ 2,935
Average Final Average Salary	3,900	70,222	63,067	72,137	80,455	81,286	93,887	73,280
Number of Active Retirants	5	31	109	202	124	45	26	542
Period 10/1/07 to 9/30/08:								
Average Monthly Benefit	\$ 888	\$ 1,467	\$ 2,164	\$ 3,265	\$ 3,323	\$ 3,074	\$ 3,704	\$ 2,939
Average Final Average Salary	3,900	70,222	64,589	72,403	81,027	80,861	97,424	73,861
Number of Active Retirants	5	31	107	206	123	44	24	540

Source: Gabriel Roeder Smith & Co.

# STATISTICAL SECTION

## Schedule of Average Benefit Payments - Health

Last Two Years

Payment Periods	Credited Service (Years) as of September 30							Total
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30 +	
Period 10/1/06 to 9/30/07								
Average Monthly Benefit	\$ 17	\$ 2,102	\$ 2,235	\$ 3,544	\$ 3,791	\$ 4,426	\$ 5,859	\$ 3,351
Average Final Average Salary	19,500	84,638	63,913	79,862	88,876	105,084	131,721	81,436
Number of Active Retirants	1	3	20	33	19	9	2	87
Period 10/1/07 to 9/30/08								
Average Monthly Benefit	\$ 17	\$ 2,102	\$ 2,264	\$ 3,456	\$ 3,488	\$ 4,648	\$ 5,859	\$ 3,287
Average Final Average Salary	19,500	84,638	66,144	78,843	88,876	105,720	131,721	81,745
Number of Active Retirants	1	3	18	32	19	8	2	83

Source: Gabriel Roeder Smith & Co.

## Schedule of Average Benefit Payments - Dental

Last Two Years

Payment Periods	Credited Service (Years) as of September 30							Total
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30 +	
Period 10/1/06 to 9/30/07								
Average Monthly Benefit	-	\$ 1,923	\$ 2,408	\$ 3,471	\$ 3,599	\$ 4,088	\$ 4,017	\$ 3,349
Average Final Average Salary	-	84,070	65,954	76,790	79,234	95,142	88,821	78,270
Number of Active Retirants	-	5	28	55	38	17	7	150
Period 10/1/07 to 9/30/08								
Average Monthly Benefit	-	\$ 1,923	\$ 2,510	\$ 3,447	\$ 3,513	\$ 4,178	\$ 3,990	\$ 3,354
Average Final Average Salary	-	84,070	68,761	77,730	81,887	94,839	88,958	79,829
Number of Active Retirants	-	5	25	56	38	16	6	146

Source: Gabriel Roeder Smith & Co.

## Schedule of Average Benefit Payments - Vision

Last Two Years

Payment Periods	Credited Service (Years) as of September 30							Total
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30 +	
Period 10/1/06 to 9/30/07								
Average Monthly Benefit	\$ 17	\$ 2,186	\$ 2,526	\$ 3,795	\$ 4,003	\$ 4,377	\$ 4,065	\$ 3,651
Average Final Average Salary	19,500	96,442	67,760	80,314	86,286	102,028	99,110	83,177
Number of Active Retirants	1	3	20	42	35	14	5	120
Period 10/1/07 to 9/30/08								
Average Monthly Benefit	\$ 17	\$ 2,186	\$ 2,588	\$ 3,801	\$ 3,775	\$ 4,510	\$ 4,038	\$ 3,618
Average Final Average Salary	19,500	96,442	70,418	81,753	86,286	102,184	101,887	84,189
Number of Active Retirants	1	3	18	42	35	13	4	116

Source: Gabriel Roeder Smith & Co.

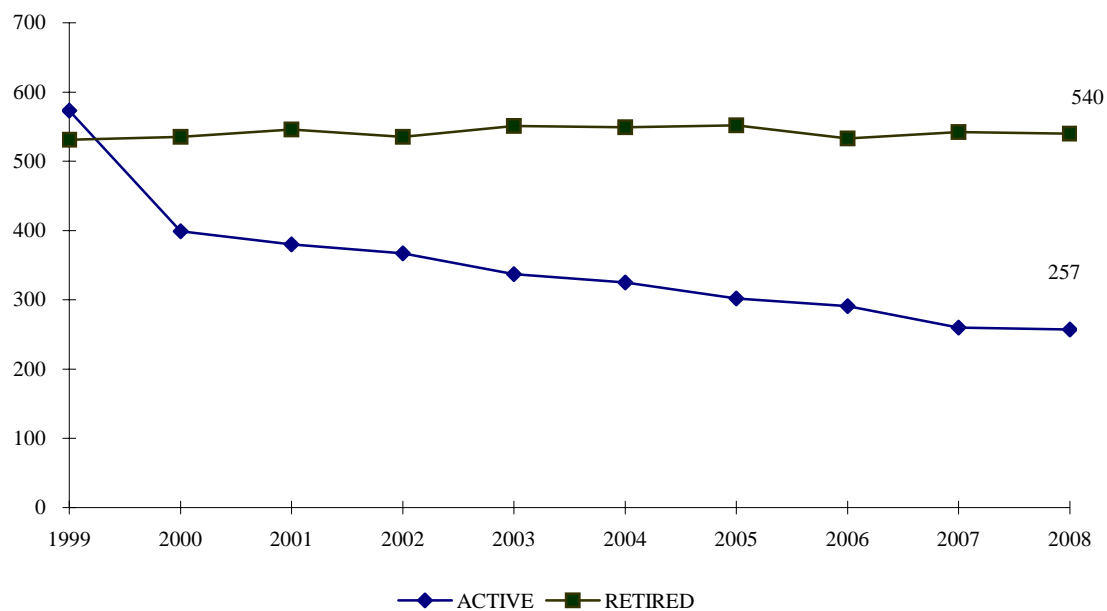
# STATISTICAL SECTION

## Schedule of Principal Participating Employers For Fiscal Years Ending September 30, 2008 and 1999

<u>Participating Employers</u>	<u>2008</u>		<u>Participating Employers</u>	<u>1999</u>	
	<u>Covered Employees</u>	<u>Percentage of Total System</u>		<u>Covered Employees</u>	<u>Percentage of Total System</u>
03rd Circuit Court	20	2.47 %	03rd Circuit Court	36	3.20 %
Court of Appeals	17	2.10	36th District Court	27	2.40
36th District Court	14	1.73	Court of Appeals	26	2.31
Recorders Court	9	1.11	Recorders Court	21	1.87
06th Circuit Court	9	1.11	06th Circuit Court	15	1.33
Wayne County Probate Court	6	0.74	30th Circuit Court	9	0.80
61st District Court	5	0.62	52nd District Court	9	0.80
08th District Court	5	0.62	Wayne County Probate Court	9	0.80
16th Circuit Court	5	0.62	16th Circuit Court	8	0.71
07th Circuit Court	5	0.62	17th Circuit Court	7	0.62
All other	<u>715</u>	<u>88.26</u>	All Other	<u>959</u>	<u>85.16</u>
Total	<u><u>810</u></u>	<u><u>100.00 %</u></u>	Total	<u><u>1,126</u></u>	<u><u>100.00 %</u></u>

# STATISTICAL SECTION

## Ten Year History of Membership Fiscal Year Ended September 30



Source: Gabriel Roeder Smith & Co.



# STATISTICAL SECTION

## Schedule of Participating Employers through 9/30/08

Elected Offices	14th District Court
Supreme Court	15th District Court
Court Of Appeals	16th District Court
02nd Circuit Court	17th District Court
03rd Circuit Court	18th District Court
04th Circuit Court	19th District Court
05th Circuit Court	21st District Court
06th Circuit Court	22nd District Court
07th Circuit Court	25th District Court
08th Circuit Court	26th District Court
09th Circuit Court	28th District Court
10th Circuit Court	31st District Court
12th Circuit Court	33rd District Court
13th Circuit Court	36th District Court
14th Circuit Court	37th District Court
15th Circuit Court	39th District Court
16th Circuit Court	40A District Court
17th Circuit Court	41B District Court
18th Circuit Court	42nd District Court
20th Circuit Court	43rd District Court
21st Circuit Court	44th District Court
22nd Circuit Court	45th District Court
24th Circuit Court	46th District Court
25th Circuit Court	48th District Court
26th Circuit Court	51st District Court
27th Circuit Court	52nd District Court
30th Circuit Court	54B District Court
31st Circuit Court	56A District Court
32nd Circuit Court	57th District Court
34th Circuit Court	58th District Court
35th Circuit Court	60th District Court
36th Circuit Court	61st District Court
37th Circuit Court	63rd District Court
38th Circuit Court	64B District Court
39th Circuit Court	65A District Court
40th Circuit Court	66th District Court
41st Circuit Court	67th District Court
42nd Circuit Court	68th District Court
46th Circuit Court	70th District Court
56th Circuit Court	71st District Court
57th Circuit Court	73rd District Court
03B District Court	74th District Court
05th District Court	76th District Court
07th District Court	77th District Court
08th District Court	78th District Court
10th District Court	80th District Court

# **STATISTICAL SECTION**

## **Schedule of Participating Employers through 9/30/08 (continued)**

81st District Court  
82nd District Court  
84th District Court  
85th District Court  
86th District Court  
87th District Court  
88th District Court  
90th District Court  
91st District Court  
93rd District Court  
95th District Court  
97th District Court  
98th District Court  
Baraga County Probate Court  
Bay County Probate Court  
Benzie County Probate Court  
Berrien County Probate Court  
Branch County Probate Court  
Calhoun County Probate Court  
Cass County Probate Court  
Chippewa County Probate Court  
Clare County Probate Court  
Emmet County Probate Court  
Gogebic County Probate Court  
Huron County Probate Court  
Iosco County Probate Court  
Iron County Probate Court  
Isabella County Probate Court  
Kalamazoo County Probate Court  
Kent County Probate Court  
Lake County Probate Court  
Leelanau County Probate Court  
Mackinac County Probate Court  
Macomb County Probate Court  
Mason County Probate Court  
Mecosta/Osceola Probate District 18  
Monroe County Probate Court  
Montmorency County Probate Court  
Muskegon County Probate Court  
Ontonagon County Probate Court  
Oscoda County Probate Court  
Ottawa County Probate Court  
Recorders Court  
Sanilac County Probate Court  
Shiawassee County Probate Court  
St Joseph County Probate Court  
Washtenaw County Probate Court  
Wayne County Probate Court  
Wexford County Probate Court

## ACKNOWLEDGMENTS

The *Michigan Judges' Retirement System Comprehensive Annual Financial Report* is prepared by Financial Services, Fiscal Management Division. Staff of the division for the fiscal year 2007-2008 report included:

### Management:

Ronald W. Foss, Director  
Cindy Peters, Accounting Manager

### Accountants:

Randy Bitner  
Trina Guy  
Erik Simmer  
Paula Webb  
Julie Zolnai

### Technical and Support Staff:

Patricia Jorae  
Jamin Schroeder  
Marilyn Williams

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The report may be viewed on-line at: [www.michigan.gov/ors](http://www.michigan.gov/ors)